

THE ANNUAL REPORT OF THE FINANCIAL STABILITY OVERSIGHT COUNCIL

HEARING BEFORE THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED FOURTEENTH CONGRESS SECOND SESSION

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THE ANNUAL REPORT OF THE FINANCIAL STABILITY OVERSIGHT COUNCIL

Thursday, September 22, 2016

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:06 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

Members present: Representatives Hensarling, Royce, Lucas, Garrett, Neugebauer, Pearce, Posey, Fitzpatrick, Luetkemeyer, Huizenga, Duffy, Stutzman, Hultgren, Pittenger, Wagner, Barr, Rothfus, Messer, Schweikert, Guinta, Tipton, Williams, Poliquin, Love, Hill, Emmer; Waters, Maloney, Velazquez, Sherman, Meeks, Capuano, Hinojosa, Scott, Perlmutter, Carney, Sewell, Foster, Kildee, Murphy, Delaney, Beatty, Heck, and Vargas.

Chairman HENSARLING. The Financial Services Committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

This hearing is for the purpose of receiving the annual testimony of the Chair of the Financial Stability Oversight Council (FSOC). I now recognize myself for 3 minutes to give an opening statement.

With today being the official start of fall, it is disappointing that the Financial Stability Oversight Council has delivered the equivalent of a summer rerun. Its 2016 annual report is basically identical to its 2015 annual report, breaking little new ground and adding little new value.

FSOC, charged with identifying risks to our financial stability, continues to mention only in passing the need for fundamental housing finance reform. It fails to adequately analyze the substantial risk that Fannie Mae and Freddie Mac, institutions at the epicenter of the last financial crisis, pose for precipitating the next.

Furthermore, since the advent of the Dodd-Frank Act, we are losing, on average, one community financial institution a day in America, as they are crushed by a Federal regulatory burden. The big banks have only grown bigger. Banking system consolidation can clearly contribute to heightened financial system risk, yet there is absolutely no mention in FSOC's report of Federal regulatory risk brought on by Dodd-Frank, a glaring omission.

But the most scandalous omission remains FSOC's conspiracy of silence regarding the existential threat posed by America's unsustainable national debt and our staggering unfunded obligations. Since President Obama came to office, the national debt has increased by a mind-boggling 84 percent. The Congressional Budget

et Office (CBO) noted in a recent report that the President's 2017 budget would add nearly \$7.5 trillion to our publicly held debt, equivalent to \$59,609 for every American household.

CBO recently warned that such high and rising amounts of debt have, "serious long-term consequences for the economy and would constrain future budget policy." On this, again, FSOC remains silent, and thus its annual report loses credibility.

Although FSOC's annual report is disappointing, this committee's focus must remain on FSOC's frightening and likely unconstitutional powers. FSOC's open-ended and virtually standardless SIFI designation process clearly gives Federal regulators broad license to concentrate immense economic power in their own hands. The designation authority is taking our financial system, regrettably, one step closer to a government-controlled utility model, a model whereby Washington will allocate credit to politically favored classes at the cost of our freedom and our prosperity. This must change.

Finally, FSOC's highly politicized structure and penchant for secrecy are emblematic of a shadow regulatory system that is antithetical to American democratic principles. That is why it is so important that last week this committee favorably reported the Financial CHOICE Act. The Financial CHOICE Act will help bring about economic growth for all and bailouts for none. It will end bailouts once and for all by removing FSOC's ability to designate privileged too-big-to-fail firms and it replaces bailouts with bankruptcy. It would protect our financial system with high levels of loss-absorbing private capital and impose the strictest fines and penalties ever on those committing financial fraud. It would hold FSOC accountable and focus its mission solely on the vital task of monitoring emerging threats to our financial system. It is undoubtedly a better way forward.

I now yield 5 minutes to the ranking member for an opening statement.

Ms. WATERS. Thank you very much, Mr. Chairman.

Secretary Lew, thank you for joining us today to discuss the Financial Stability Oversight Council's 2016 annual report.

Last week, the U.S. Census reported that median household income increased by more than 5 percent, the largest increase in both percentage and dollar terms since the government began tracking this data nearly 50 years ago. The Census Bureau also reported that the poverty rate declined by 1.3 percentage points and that the number of people without health insurance in the United States declined by 4 million.

All told, our progress is rather remarkable compared to where we were 8 years ago when, during the last days of the Bush Administration, we were shedding more than 700,000 jobs per month and millions of people were being displaced from their homes.

But make no mistake, we need to be doing more, especially to address the wealth gap, and particularly for African American and Hispanic households, whose economic security was devastated by the financial crisis.

Unfortunately however, there is an unnerving sense of amnesia from my colleagues on the other side of the aisle about the dark days of the crisis. Here we are, 8 years after that devastation and

more than 6 years after Dodd-Frank became the law of the land, considering the same harmful deregulatory proposals that would undo the critical progress we have made.

Just think about this. Two weeks ago, one of the largest banks in the United States, which was supposedly one of the most well-run, was found to have opened more than 2 million unauthorized deposit and credit accounts for unsuspecting customers. This is a massive fraud of historic proportions that begs the question of what further reforms may be needed. And yet, in this committee the answer is deregulation and more opportunities for Wall Street to write the rules of the game. And like the Consumer Financial Protection Bureau, the FSOC is on the front line of those attacks.

With Wall Street reform, we created the FSOC to look across the entire financial system, identifying gaps that may exist between regulators and action to prevent another meltdown. No longer would we allow banks to shop around for the weakest regulator or move money around the globe to escape regulation.

Earlier this year, we saw just how effective the FSOC can be in preventing companies from growing too large or risky as to threaten the economy. General Electric Capital voluntarily agreed to shrink itself and sell off much of its consumer financial business, returning to its roots as an industrial company. The firm is now smaller, safer, and less likely to cause risk to the rest of the financial system if it becomes stressed. In turn, FSOC allowed GE Capital to shed its systemically important designation and the higher regulatory standards that came with it.

What this means is that Wall Street reform is working as it should. The system is creating incentives for firms to shrink themselves and it is ensuring that companies like GE renew their focus on creating jobs in the real economy.

And yet, despite this progress, my colleagues on the opposite side of the aisle are intent on dismantling the FSOC. Nowhere has this effort been more apparent than the chairman's Dodd-Frank repeal bill, which received bipartisan opposition in the committee last week. This harmful legislation would strip the FSOC of its ability to designate nonbanks for heightened supervision, repeal all existing designations for large complex firms like AIG, and otherwise limit its ability to operate effectively. This bill and others would put Wall Street back in the driver's seat and leave consumers and investors to fend for themselves.

Rather than continuing this committee's focus on harmful rollbacks, we should be supporting further reform and exploring how we can do more to prevent scandals like the one at Wells Fargo.

So I look forward to your testimony, Secretary Lew, on the state of our financial markets and what we need to keep doing to prevent a repeat of the 2008 financial crisis.

Thank you, Mr. Chairman, and I yield back the balance of my time.

Chairman HENSARLING. The Chair now recognizes the gentlemen from Texas, Mr. Neugebauer, chairman of our Financial Institutions Subcommittee, for 1 minute.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

The Financial Stability Oversight Council's mission is to ensure the stability of the U.S. financial system and to identify future risks to the system. It was given authority to designate banks and nonbanks alike for heightened regulation. I believe, however, it also has the responsibility to ensure that the recommendations and designations are appropriately calibrated and provide sufficient clarity to the marketplace.

To date, FSOC has failed to live up to its duty to be a responsible Federal agency. First, FSOC has failed to exercise its authority under Section 115 of Dodd-Frank to ensure that the application of heightened prudential standards is applied fairly to the bank holding companies. In the face of analysis from the Office of Financial Research that suggests \$50 billion banks aren't systemically important, FSOC has instead chosen arrogance over prudent tailoring.

Second, the FSOC has failed to implement a fair, transparent, and measured process when designating nonbanks as systemically important. As the U.S. District Court Judge Collyer noted, the determination process is "fatally flawed." Yet, FSOC has created additional regulatory uncertainty by appealing this legal ruling.

Third and finally, the FSOC's regulatory protectionism has failed to identify market concerns like those seen with the liquidity constraints in the bond markets.

I hope today we will finally get to hear substantive answers to legitimate policy questions instead of the usual Democratic talking points praising Dodd-Frank.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, the chairman of our Capital Markets Subcommittee, for 1 minute.

Mr. GARRETT. Thank you, Mr. Chairman.

And, Mr. Secretary, it is good to see you again. I understand that you are a tough man to nail down to get to this hearing today, even though it is the rule of law. But I guess I would be too if my job was to come here and try to defend FSOC.

So we are starting to get at a point of an Administration's tenure where people inevitably turn to talking about legacy and what you all will be leaving behind. Unfortunately, when it comes to FSOC, the Obama Administration's legacy will be remembered by what? Secrecy, obfuscation, and a continued refusal by the Administration, and especially you, to answer the most basic and simple questions to provide transparency to either this committee, to Congress, and most importantly, the American people.

And it is not just the legislative branch that notices this. The recent court decision invalidating the designation of MetLife is a reminder to all of us that we live in a system governed by the rule of law, Mr. Secretary, and not by the rule of bureaucrats.

So, Mr. Chairman, I hope the Treasury Secretary finally understands this, and I look forward to some of his answers today. With that, I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

Today, we welcome the testimony of the Honorable Jack Lew, Secretary of the Treasury. Secretary Lew has previously testified before this committee on a number of occasions, so I believe he needs no further introduction.

Mr. Secretary, without objection, your written statement will be made a part of the record, and you are now recognized for 5 minutes to give an oral presentation of your testimony. Thank you.

**STATEMENT OF THE HONORABLE JACOB J. LEW, SECRETARY,
U.S. DEPARTMENT OF THE TREASURY**

Secretary LEW. Thank you, Chairman Hensarling, Ranking Member Waters, and members of the committee. I appreciate the opportunity to testify today regarding the 2016 annual report of the Financial Stability Oversight Council.

We have just passed the eight-year anniversary of the collapse of Lehman Brothers. Every autumn this dates provides a grim reminder of the most severe financial crisis of our lifetimes. But it is also an opportunity to measure the tremendous progress we have made to build a safer and more resilient financial system that will support long-term economic growth.

Six years ago, we worked together to put in place the most far-reaching, comprehensive update of the financial regulatory system since the Great Depression. The Dodd-Frank Wall Street Reform and Consumer Protection Act addressed serious weaknesses that contributed to the crisis, putting in place new consumer, investor, and taxpayer protections and effectively restoring confidence in our Nation's financial system.

Today, the success of these reforms continues to be reflected in a long and stable economic recovery. We have cut the unemployment rate in half. Our economy is more than 10 percent larger than its pre-recession peak. U.S. businesses have added a total of 15.1 million jobs since private sector job growth turned positive in early 2010. And our financial system is safer and more resilient, providing the critical underpinnings for more inclusive long-term growth.

Recent Census Bureau data demonstrates that significant strides have been made. The Nation's poverty rate is down. For Hispanics and African Americans, it is at the lowest level in more than a decade. Household incomes are rising, with 2015 seeing the fastest 1-year growth since the Census Bureau began reporting on household income in 1967.

Recent enforcement actions by the OCC and the CFPB also remind us of the ongoing need for robust protections and that that need is very real. Without a strong consumer watchdog, the financial system can be dangerous for consumers and businesses alike. Indeed, one of the most important lessons of the crisis was the need for a financial regulator dedicated to looking out for and protecting consumers.

The last financial crisis had at its core abusive practices that should have been prevented. As the only regulatory agency focused solely on consumer financial protection, the CFPB is designed to ensure that markets for consumer financial products and services are fair, transparent, and competitive, and it has been fulfilling this statutory mission actively and well.

The conduct that led to recent enforcement actions again underscores the importance of finalizing strong, sensible executive compensation rules, a central component of Wall Street reform.

Moving forward, it is critical that we continue to build upon the success of Wall Street reform in creating a framework for responding to risks that arise in any part of the financial system. Rather than regulating purely in reaction to crises, Wall Street reform established a forward-looking approach that is focused on regulating and identifying risks presented by markets as a whole and by types of activities wherever they are conducted.

The Financial Stability Oversight Council exemplifies this approach. Previously, financial regulators too often operated in silos, and there was no single agency or group specifically charged with collectively monitoring and maintaining financial stability.

For the last 6 years, FSOC has brought the entire financial regulatory community together to be on watch for signs of vulnerability and to respond to emerging threats to financial stability before they turn into crises.

Today, the Council continues to benefit from the diversity of expertise and perspectives of its members, and the Council has been open-minded and deliberative in its approach, regularly engaging with stakeholders, frequently updating the public on its views and actions, and always remaining careful to avoid a one-size-fits-all approach to addressing different types of risks, and always asking important questions and looking to data and analysis for answers.

Before I discuss the Council's finding in its sixth annual report, it is worth noting the report's significance. The Council's annual report serves as a key mechanism for public accountability and transparency, setting a marker for action, and outlining the Council's priorities and a roadmap for the year ahead. It is the product of extensive collaboration and data-driven analysis, capturing the consensus of the Council's members on key risk areas, as well as recommendations to mitigate those risks. Importantly, the report includes a statement signed by each of the Council's 10 voting members that affirms that all of the issues and recommendations in the report should be fully addressed.

The Council's 2016 annual report focuses on 12 key areas that have been the topic of Council discussions over the past year. These areas include cybersecurity, risks associated with asset management products and activities, reforms to wholesale funding markets, and global, economic, and financial developments. For each area the report cites progress made and, if necessary, the need for further action on the part of Council members and member agencies.

Cybersecurity remains a key area of focus for the Council. In response to increasing threats presented by cyber attacks, the U.S. financial sector has stepped up efforts to improve security across the system. Efforts include incident response planning, greater information sharing and analysis, and establishing private sector best practices for assessing risk.

The report makes several recommendations for building on this important work. The Administration remains committed to staying ahead of this issue, and we look forward to working with both the Council and Congress as we continue to address it.

The Council is focused on potential risks to financial stability posed by asset management products and activities. As these products and activities represent an increasingly important part of the

U.S. financial sector, the Council will continue to evaluate their implications for financial stability.

To that end, in April of this year we published an update regarding the Council's review of potential risks in this area, in particular focusing on liquidity, redemption, and leverage risks. This update was the result of nearly 2 years of data-driven analysis and engagement with key stakeholders and reflects the Council's focus on asking tough questions to help inform its views. Our work in this area is ongoing, and we plan to provide timely public updates as our analysis continues.

Let me close by saying that in the years ahead, it is vital that we remain vigilant to ensure that we do not return to the pre-crisis way of doing things, looking narrowly at jurisdictional lines dictated by the kind of charter a firm has selected and reacting to old problems instead of identifying and addressing the threats that lie ahead. The old approach did not work, and regulators did not respond in time to prevent a crisis. We cannot go back.

That means we must not only remain steadfast in opposing efforts to roll back reform, but also that we must continue to build on the progress that we have made. The work of the Council has been critical to this progress, and it is important that the Council continue to have the tools necessary to respond to future threats as they emerge.

I want to thank the other members of the Council and all the staff involved in the development of the 2016 annual report for their hard work and commitment. I would encourage the committee to work with the Council to build on the progress that we have discussed today.

The recent news of consumer fraud by a large firm should strengthen our collective resolve to work together to build on Wall Street reform, rather than advancing legislation that would return us to the days when we had broad regulatory gaps and weak consumer protections.

Going forward, I am confident that the progress we have made over the past 6 years will continue to promote the strength and stability of the U.S. financial system for many years to come.

Thank you, Mr. Chairman. I appreciate your accommodating my schedule by adjourning at 1 p.m., and I will do my best to keep my responses brief so we can get in as many questions as possible.

[The prepared statement of Secretary Lew can be found on page 60 of the appendix.]

Chairman HENSARLING. The Chair now recognizes himself for 5 minutes for questions.

Mr. Secretary, one of the emerging threats listed in the FSOC report is the possibility of a destructive cyber attack. As I believe you recall, it wasn't 6 months ago that seven Iranians linked to the Iranian Revolutionary Guard were indicted for a coordinated cyber attack on major U.S. financial institutions. Attorney General Loretta Lynch said at the time, "These attacks were relentless, they were systematic, and they were widespread."

So I have a couple of questions about the recent \$1.7 billion in payments the Administration recently made to Iran, payments that we now know were made in cash, made in secret, and \$400 million of which we know coincided with the release of American hostages.

Secretary Kerry, your fellow Cabinet member, said of related sanctions relief under the JCPOA, “I think that some of it will end up in the hands of the Iranian Revolutionary Guard Corps or other entities, some of which are labeled terrorists.”

So isn’t it true, Mr. Secretary, that since the \$1.7 billion was paid in cash, we have no way of tracing the money, and you have no way of assuring us that it will not be used for terrorist purposes?

Secretary LEW. Well, Mr. Chairman, the payments that you are referring to are payments related to the Hague Tribunal settlement. President Obama—

Chairman HENSARLING. I understand that, but the question is, can you trace it, and can you guarantee us that it will not be used for terrorism?

Secretary LEW. We have laid out the facts related to this transfer in a letter sent to this committee. The payments complied with U.S. sanctions—

Chairman HENSARLING. I understand that, Mr. Secretary, but it is a yes-or-no question. Can you guarantee us that it will not be used for terrorist purposes? Because I don’t believe you can trace it.

Secretary LEW. Mr. Chairman, if you would just give me a minute, I will answer your question, just give me a minute.

Chairman HENSARLING. Well, if you would answer the question, I would allow you to give the context.

Secretary LEW. Mr. Chairman, you in your question characterized this incorrectly. It was not ransom. It was settlement of a contractual dispute.

Chairman HENSARLING. I didn’t use the word “ransom,” Mr. Secretary. I said it—

Secretary LEW. You did.

Chairman HENSARLING. No, I didn’t. You could read the record. I said it coincided with the release of American hostages.

Secretary LEW. You have asked a specific question about where the money goes. The payment went to the Central Bank of Iran. We do a lot of work to monitor the support that Iran gives to terrorist organizations. We have not seen—

Chairman HENSARLING. What I asked, Mr. Secretary, was, could you trace the money? Can you trace the money?

Secretary LEW. We have not seen an increase in terrorist funding by Iran.

Chairman HENSARLING. Okay. I think we will move on, Mr. Secretary, because I am not getting an answer. But I want to know—and we have pursued this line of questioning before—who authorized the cash payment? We know that cash has been called the currency of terrorism. You have an entire office at Treasury devoted to terrorism and financial intelligence. According to press reports, senior officials at the Justice Department indicated objections.

Did you object to the payment or were you the one who authorized the cash payment?

Secretary LEW. Mr. Chairman, the President spoke clearly to the facts of this on January 17th. We have given you the details in a letter. This was a settlement of a contract claim where the United

States Government and the American taxpayer was exposed to potentially \$5 billion to \$10 billion of additional damages—

Chairman HENSARLING. It was the settlement of a contract. The question is, Mr. Secretary—you are avoiding the question—who authorized the cash payment?

Secretary LEW. The method of payment is a technicality. The agreement to settle a contract dispute was a substantive issue.

Chairman HENSARLING. It is not a technicality to those who are on the receiving end of Hezbollah missiles in Israel.

Secretary LEW. The payments were consistent with our sanctions laws. They were consistent—

Chairman HENSARLING. Did you authorize the cash payment, yes or no?

Secretary LEW. The method of payment was worked through a process that we outlined in a letter that we provided to this committee.

Chairman HENSARLING. Okay. Mr. Secretary, isn't it true that under 31 U.S.C. 1304, you must personally certify payments for the Judgment Fund? So these funds could not have been released except on your signature?

Secretary LEW. Mr. Chairman, I am telling you the payments were properly made. I was aware of them. I was cognizant that it was happening. It was an appropriate settlement of a contract dispute that saved the American taxpayer billions of dollars.

Chairman HENSARLING. If you won't tell us who authorized the cash payment, what we do know is on multiple occasions, the Administration said that you had no choice but to use cash, and, in fact, your State Department spokesman on August 3rd said, "It couldn't be done over wire transfers." The President himself on the very next day said, "We could not wire the money." Yet, a Treasury Department spokesman acknowledged that on at least two occasions, the U.S. did make payments via wire transfer, in July 2015 or April 2016.

So did Politico get it wrong, did your spokesperson get it wrong, or did the President get it wrong? Why were we misled?

Secretary LEW. Mr. Chairman, the President got it right. You weren't misled. The payments were made as described—

Chairman HENSARLING. There were two wire transfers made, one in July 2015 and one in April 2016.

Secretary LEW. Mr. Chairman, I am happy to answer your question, but you have to stop interrupting me every time I start.

Chairman HENSARLING. Well, if we would get answers, then I wouldn't have to interrupt.

Secretary LEW. I am happy to answer your question, but you have to let me speak.

Chairman HENSARLING. Okay. I would like to listen.

Secretary LEW. All right. We have done a very effective job cutting Iran off from the international financial system. The payment that was made by wire to Iran was not for a billion dollars, and not for a million dollars. It was for \$900,000. It went to a foreign bank account that Iran had. And it was a difficult process to get the money, as it has been difficult for Iran to get access to its own money under the JCPOA, because we have been so effective in isolating Iran from the international financial system.

The method of payment—

Chairman HENSARLING. The wire transfers were made.

Secretary LEW. The method of payment—

Chairman HENSARLING. That is correct?

Secretary LEW. The method of payment is a technical detail. The agreement was that this settlement would go to the Central Bank of Iran, and it was done in a way that was consistent with the agreement.

Chairman HENSARLING. You are confirming that at least two wire transfers went to Iran, correct?

Secretary LEW. Mr. Chairman, I am telling you that before the transaction that we are discussing, the transfer we are discussing, one had gone. The other was subsequent. It was for \$900,000. And it was a difficult process because, as it has been hard under the JPOA and the JCPOA, it has taken Iran a lot of time to get access to its own money that it is entitled to under the agreement.

I am not saying—

Chairman HENSARLING. Thank you, Mr. Secretary. I believe that the President did get it wrong.

My time has expired.

Secretary LEW. No. You are totally incorrect. I just disagreed with you, Mr. Chairman.

Chairman HENSARLING. The Chair now recognizes the ranking member for 5 minutes.

Ms. WATERS. Mr. Chairman, I would like unanimous consent to enter into the record from the opinion pages of The New York Times an editorial entitled, "The Fake \$100 Million Iran Ransom Story."

Chairman Hensarling. Without objection, it is so ordered.

Ms. WATERS. I think it is perhaps incumbent upon us to help debunk the distortion of what took place with Iran.

Let me just say, it is not simply about the so-called ransom story that has been made up by my colleagues. Every attempt that my colleagues on the opposite side of the aisle have made to discredit the Iran agreement, to try to dismantle the Iran agreement, has been made.

Just yesterday, we were on the floor with a bill that simply said that my Republican colleagues wanted to identify and list, I don't know, a whole array of the leadership of Iran and expose them for their assets, where they came from, what they are doing with it. They have been told over and over again that even that action did nothing but signal harassment and a conclusion by Iran of a bad faith effort by the United States.

I don't know why they continue it. As a matter of fact, I have said over and over again that this country needs the support of the Congress of the United States as our President takes the rightful leadership to act on behalf of this country and to negotiate deals and to do the business of the Presidency. But what we find is an undermining of this President at every turn, and it has been absolutely shameful what has been happening with this Iranian agreement.

And so this conversation that just took place is just one more effort for my colleagues to send a message across the world that our President cannot count on the Congress of the United States, that

we negotiate in bad faith, and that somehow what is going on in the United States is bad for the rest of our allies who have supported us.

This ties in to what the Presidential candidate Mr. Trump is doing. He has a theme about making America great again. Some of us think America is already great to begin with. And his alliance with Putin, his friend that he may be doing business deals with, all of this ties in together.

What are we doing? In the name of trying to acquire the Presidency and align themselves with Trump, are they continuing to try and dismantle the leadership of this country, to undermine us, talk about how bad we are, how crippled we are, how Mr. Trump knows better than our generals, on and on and on again?

It needs to stop. You should not have to suffer this today. This is a continuing of a political effort, I guess to align with the theme of America not being so good, not so great, and what they are doing somehow with Mr. Trump is going to make it better. This is absolutely outrageous.

I had some other things that I wanted to talk with you about today, but let's just put it on the line. What we have here is the opposite side of the aisle, the Republican Party and Mr. Trump, who are not only not supportive of the President, they just don't think this country is much good. They just don't think that the generals know what they are talking about. They just think Putin is our friend. They just think somehow this country has gone to the dogs, I suppose, and they have to do everything that they can to prove it by proving that somehow this Iranian deal that is going to help keep the world safe, and certainly the Middle East safe, that somehow it is wrong, it is no good, and it should be undermined, be damned our allies who joined in with us in this deal to help reduce Iran's ability to have the kind of nuclear capability that could cause a holocaust.

And so I just want to tell you, Mr. Secretary, I am sorry that you have to endure this. This should not be a place where this kind of politics is placed, put before you. It is happening. I would hope that you would refrain from even trying to answer some of these questions that are being raised.

This is a great country. The Iranian deal was a great deal. The President provided great leadership. We don't have to be ashamed of it. Shame on them.

I yield back the balance of my time.

Chairman HENSARLING. The Chair now recognizes the gentleman from Texas, Mr. Neugebauer, chairman of our Financial Institutions Subcommittee.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Before I get to my FSOC question, I just want one follow-up question from Chairman Hensarling, and this is just a yes or no. Did we record the serial numbers on the cash that was delivered to the Iranians?

Secretary LEW. Congressman, I would have to check—

Mr. NEUGEBAUER. Could you check on that? I think that was the chairman's question. I just want to know if we have some traceability there.

My question applies to your capacity as Treasury Secretary and chairman of the FSOC. As you are probably aware, the Federal banking agencies submitted a required report on investment activities of banks required under Section 620 of the Dodd-Frank Act. This month the report was delivered to Congress and to FSOC, and the Federal Reserve Board made a recommendation to Congress to repeal the merchant banking authority for banks.

As you know, Gramm-Leach-Bliley gives the joint rulemaking authority both to the Federal Reserve and to the Treasury to issue regulations implementing merchant banking authority and limitations. In fact, they did so in 2001.

Before the submission of the 620 report, did the Federal Reserve consult the Treasury Department regarding its recommendations on repealing the merchant banking provision?

Secretary LEW. Congressman, it was a report prepared by the regulators independently. We obviously are familiar with the issue, but we were not involved in the preparation of that report.

Mr. NEUGEBAUER. So I guess since Congress gave the authority to, and the Treasury has joint rulemaking authority with the Federal Reserve—

Secretary LEW. I believe the report was under a different authority than the joint rulemaking. There were two different pieces of work that were involved.

Mr. NEUGEBAUER. It was a recommendation?

Secretary LEW. Yes.

Mr. NEUGEBAUER. Do you agree with the recommendation?

Secretary LEW. So, look, we are looking at the report and would be happy to work with this committee as we review it to respond more fully. We just received the report as well.

Mr. NEUGEBAUER. So does the Treasury believe it has the appropriate tools to analyze the risk from merchant banking activities?

Secretary LEW. Yes, I think we have the ability to understand merchant banking. It is not new to us that there are issues regarding merchant banking. You are asking about a specific report that came about a week ago.

Mr. NEUGEBAUER. So with the tools that you have and the activities that you had in the past, have you found that merchant banking is too risky, or you haven't been able to mitigate it, or what would be your response on merchant banking?

Secretary LEW. Look, I think that the issue regarding merchant banking is really an issue that has arisen out of the fact that in the original legislation, Dodd-Frank legislation, distinctions were made between different kinds of activities so that private equity is treated one way, merchant banking is treated another way. And I think we are going to need to take a look at whether there are inconsistencies there that do require attention, and I would be happy to get back to you.

Mr. NEUGEBAUER. So I think basically there is probably approximately \$26.7 billion in merchant banking investments held by banks. If the vote was to eliminate merchant banking activities, who is going to take up that slack?

Secretary LEW. Well, I think it would require legislative action. As I understand the recommendation that the regulators made, was they proposed legislative action to remove a provision that ex-

empt merchant banking from the rules. So it would require this body to act.

Mr. NEUGEBAUER. So that recommendation was made to FSOC, and FSOC has not acted on that recommendation?

Secretary LEW. We just got the recommendation very recently. We haven't had a meeting since we got the report. I am not aware of administrative authority that exists to do that. But I would be happy to check and get back to you.

Mr. NEUGEBAUER. So you weren't consulted, and you have just received the report. Is that what you are saying?

Secretary LEW. The report came to us, I forget if it was a week or 10 days ago, and it was done by the regulators independently.

Mr. NEUGEBAUER. But you didn't have any prior knowledge—

Secretary LEW. No, no.

Mr. NEUGEBAUER. —that that was going to be the recommendation?

Secretary LEW. I don't believe so. I am happy to check.

Mr. NEUGEBAUER. So what will be the process moving forward? When will FSOC take up discussions on that particular recommendation?

Secretary LEW. I will have to get back to you, Congressman. We haven't had an FSOC meeting since that report came in, and I am not in a position to respond until we have had a chance to look at it and discuss it.

Mr. NEUGEBAUER. So will FSOC report its findings to Congress?

Secretary LEW. We are happy to work with this committee going forward as we review it and as you review it. We got the recommendations, as I point out, just very recently.

Mr. NEUGEBAUER. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Secretary, last week the majority passed legislation that will severely hobble the CFPB by subjecting it to a politicized Congressional appropriation process, repealing the single director structure and putting up significant roadblocks to its ability to create rules and enforce them. More shockingly, it will remove the Bureau's authority to bring enforcement cases against abusive products and services.

In light of what we know about the impact of predatory products leading up to the financial crisis and the recent evidence that Wells Fargo was trying to extract profit in deceptive ways, what will these changes to the CFPB do to Americans' economic security?

Secretary LEW. Congresswoman, I think that if you look at the financial crisis, it is undeniable that at the heart of it was a practice of mortgage lending that was abusive and that when it became a part of our financial system through complex financial instruments, ended up triggering a financial crisis. So we know that abusive practices are not just unfair and bad in terms of the individuals who are affected, but if left unchecked, can become a real threat to financial stability.

I think the recent actions taken by the CFPB and the OCC reflect the ongoing need for tough consumer protection, for inde-

pendent consumer protection, and for an agency set up in a way that is workable, which is what we have now in the CFPB. I think it is a good thing that there was a place for those issues to go for them to be addressed. It was the largest fine that the CFPB has made.

I am not saying that every issue becomes an issue of financial stability. I actually think it is important to address things, even if it is just a question of abusing millions of consumers. But we also know that when these kinds of abuses occur, it can accumulate into financial stability risk.

So for both reasons, I think it is critical that the CFPB maintain the ability to operate, and I believe it has operated very well. And if you go around to the industries that are affected by the CFPB, there actually are many who say the same thing, that they have done their job very well.

Ms. VELAZQUEZ. Thank you. And then we wonder why there is so much anger among working people in this country. So here we have regulations to prevent the same crisis that we saw from happening again, and yet people continue to use deceptive ways to get people and to exploit working families in this country.

I hope that the Department of Justice looks into this and brings justice, not only for the families that are impacted and the consumers that were impacted, or even for those workers that were tricked into going into behavior that was not the right behavior just because of the pressure coming from the top at the bank.

Mr. Secretary, you are well aware that Puerto Rico is currently facing a severe financial crisis. The median household income is \$18,000, just one-third of the national average. Forty-six percent of the population lives below the poverty line.

On top of these challenges, the island is still struggling with the Zika virus, which has infected now 20,000 people on the island, including 1,500 pregnant women. And just yesterday, a massive power outage left the island without electricity. Half a million people in the island today have no water.

I know we passed PROMESA that was signed into law in June. It will provide for a control board and a restructuring mechanism for the island's \$70 billion debt.

My question to you is, PROMESA did not include any proposal to reinvigorate the island's economy for the long term. The U.S. Government has a colony in the Caribbean. It is Puerto Rico. We have a moral responsibility.

So given the situation that I just described, what is your view of what is needed to happen in Puerto Rico? Should we in Congress revisit what we did and come out with—

Chairman HENSARLING. The time of the gentlelady has expired. If the Secretary could give a brief answer, please.

Secretary LEW. Thanks, Mr. Chairman.

I would just say briefly, PROMESA was extremely important. It will provide the basis for Puerto Rico to have a fiscal plan that leads to debt restructuring and financial stability. But as we have always said, alone it is not enough. There needs to be more action.

We have proposed that Puerto Rico be treated as States are treated for the purpose of Medicaid reimbursement and for the earned income tax credit, things that really would stimulate the

economy, and we look forward to working with this Congress to take additional steps to make sure that there is a long-term economic plan for Puerto Rico.

Chairman HENSARLING. Again, the time of the gentlelady has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, chairman of our Capital Markets Subcommittee.

Mr. GARRETT. Thank you, Mr. Chairman.

Mr. Secretary, I think it is fair to say that all of us in Congress, myself included, are outraged at the activity that occurred over at Wells Fargo, that I know you are very familiar with, over a number of years. The entire incident now has a number of people clamoring for regulators to be tough when they finalize the incentive compensation rules under Section 965 of Dodd-Frank, which I am sure you are familiar with.

The current proposal is intended to limit compensation of financial firms and includes a provision that would require something called clawbacks of compensation for certain high-level executives that could go back as far as 7 years. But like a lot of things for the other side of the aisle, it depends on just what executives we are talking about here when this happens.

And so let me give you one example: you, Mr. Secretary. You joined Citigroup back in 2006, and by 2008, you became the chief operating officer of the Citigroup Alternative Investments unit, which at that time managed \$54.3 billion. Then the Alternative Investments group began to do what? Hemorrhage money that year. And by the end of 2008, Citigroup had laid off more than 50,000 employees. The stock price dropped by 75 percent. And then, of course, they were bailed out by who? The American taxpayers, to the tune of \$45 billion.

Then, to add insult to injury, last year the SEC announced that two Citigroup affiliates, including the one where you were the chief operating officer, agreed to pay \$180 million to do what? To settle charges that your unit defrauded investors.

So you were the senior officer at the Citigroup unit which lost money, that contributed to the bank's near collapse, and which later was charged with defrauding investors. Talk about a legacy. Was any of your compensation at Citigroup ever clawed back? That is a yes or no.

Secretary LEW. Congressman, I am proud of my record implementing financial reform, pushing hard for—

Mr. GARRETT. So was any of—

Secretary LEW. —pushing hard for the executive comp rule.

Mr. GARRETT. I am not asking that, Mr. Secretary. Let's just get to the question. I saw how you did not answer the chairman's question.

Simple question: Was any of your money, your seven-figure compensation package, ever clawed back for the time that you were the chief operating officer?

Secretary LEW. The issues regarding my compensation have been well worked over.

Mr. GARRETT. So then it is an easy answer, Mr. Secretary.

Secretary LEW. I have answered many questions. I was paid in a way that is well-understood and disclosed. I am telling you that my services in this role—

Mr. GARRETT. Mr. Secretary, please answer the question.

Secretary LEW. —have been to make sure that we put rules in place that work going forward.

Mr. GARRETT. Mr. Secretary, simple question. You were paid. Your unit was defrauded.

Secretary LEW. Congressman, I—

Mr. GARRETT. Was any of your money ever clawed back?

Secretary LEW. I was not subject to any action of any kind because—

Mr. GARRETT. Okay.

Secretary LEW. —no one has ever asked any questions that led to that, nor will they.

Mr. GARRETT. See, Mr. Secretary, simple. The answer is no. None of your money was—

Secretary LEW. And let's remember what my role was when I was there.

Mr. GARRETT. Yes, you were the chief operating officer involved—

Secretary LEW. Yes, I was responsible for administrative activities, not for designing risk products. So let's just remember what my role was.

Mr. GARRETT. Mr. Secretary, you were a senior executive.

Would the proposed incentive compensation rules capture or impact any of your compensation if those rules were in place back then?

Secretary LEW. I am not aware of anything that relates to me personally, but I also am not directly involved in writing the rules, so I can't tell you exactly where they are. I have urged the regulators to have broad such rule.

Mr. GARRETT. Should the rules be such that senior executives—and Elizabeth Warren doesn't make differentiation between COOs and CEOs. She says all senior executives should have clawbacks. Is she wrong?

Secretary LEW. I think that the questions that have been asked in designing these rules have been, how do you align incentives for risk taking?

Mr. GARRETT. That is not the question.

Secretary LEW. No, but that is what the driving issue is. How do you make sure that there is not an incentive in the compensation to take risk—

Mr. GARRETT. Here is one—okay, let me ask you this then. Here is an alignment.

Secretary LEW. And that is the right question. That is what we have been pushing.

Mr. GARRETT. Mr. Secretary, thanks. Here is one on the alignment. When you left there, despite all the hemorrhaging and the taxpayer bailout, you received something called a bureaucratic parachute. You had a promise in your contract that you would be paid \$944,000 if you took a high-level position in the U.S. Government. Hey, I guess you got that, didn't you?

Was that a payment contingent upon you doing and your unit doing a good job? Was that contingent upon the fact of whether or

not there was any fraud in your unit? Or did you just get paid regardless?

Secretary LEW. Congressman, my compensation was based on my performance at the job. The only thing that that provision said was I didn't lose my last year's pay.

Mr. GARRETT. The performance of your job? The company lost 75 percent stock. It went down.

Secretary LEW. Congressman, you don't know what my job was.

Mr. GARRETT. Well, yes, I do. It is in this disclosure as to what you are. You were the coordinator for all the units, oversee coordination between operations, technology, human resources, legal, financial, regional departments. Seems like you had your finger on every single aspect of the company. I guess you are telling us that you are not responsible for anything.

So, Mr. Chairman, I will end with this. I want to make it clear for the record that so long as you are a high-ranking Democratic official you can make all the money that you want on Wall Street, but if you are not one of them, then you have to play by the rules if the company collapses.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Mr. Secretary, let me spend the first couple of minutes on stuff so noncontroversial that I don't think anybody in the room will disagree, because you deserve at least a couple of minutes.

Secretary LEW. I don't need any time. I am fine.

Mr. SHERMAN. Oh, I know. But you deserve it anyway.

First, thank you for the Treasury Department announcement and clarification that I asked for last time you were here. So the 8,000 people from my district who had to evacuate for months due to the world's largest methane leak can clearly understand that they are not going to be taxable on the money they got to reimburse them for their expenses when they were living outside their home.

Second, last time you were here, back in March, I brought up the issue of a U.S.-Armenia tax treaty. I know we have told your staff, so I am not blindsiding you here, that I would bring this up again. And the answer I have gotten from your staff is, hey, it would be wonderful if we did it, but it is a matter of prioritizing our resources. So I want to review with you why I think it is a priority.

Canada, whose Treasury Department analog has maybe a tenth of your resources, negotiated a treaty with Armenia. Your Department has negotiated treaties with Luxembourg and Malta and with dozens of other countries. But what I think your staff may be losing track of is they are looking at everything through solely an economic lens, and they also need to look from a geopolitical and foreign policy lens.

And I am asking your Department to just have one tax lawyer spend a few months to do something, and I want to describe how important it is from the standpoint of the Congress and the standpoint of the executive branch, State Department, foreign policy, Defense Department.

We in Congress have provided a billion dollars of aid to Armenia over the last 25 years. The executive branch has a policy of getting the Newly Independent States that became independent from the Soviet Union, to wean them from Moscow. And that is so important that not only have you done tax treaties with Estonia, Latvia, and Lithuania, but we have put our lives on the line. We admitted Estonia into NATO. We could be at war with Russia. We could lose soldiers in the field.

Now, I am not asking anybody in the Treasury Department to put their life on the line. Just asking to do something that should be rather easy because I have persuaded—well, I have talked with the Armenians. They will start with your model treaty.

Given that the Congress has provided a billion for this objective, given that our soldiers are ready to die for this objective, can you spare a tax lawyer for a few months?

Secretary LEW. So, Congressman, I understand the strategic significance of Armenia and appreciate the source of your concern. We obviously look at these tax treaties through an economic tax policy lens, and the basic question that we ask is, can we avoid the kind of double taxation that treaties are meant to avoid? We don't have any evidence that there is double taxation.

Mr. SHERMAN. That was the answer you gave last time. It is a chicken and egg. There is no investments because there is no tax treaty. There is no tax treaty because there is no investment.

I have done my best to persuade you on this, and I have just a minute to go on to something, and that is, too big to fail is too big to exist. You and FSOC have the right to break them up. People on this committee could cosponsor the Sanders-Sherman bill and break them up.

We know that they are so big, they are too-big-to-fail. We know that if they get in trouble, they will be bailed. The chairman says, well, don't list them, and they won't be bailed. We were all here—many of us here in 2008. If they are about to go under, this Congress will pass new laws to bail them out.

So we are talking about fail. We are talking about bail. We are also talking about jail, because the Attorney General announced that he would be reluctant to criminally indict them, these institutions, because of the effect it would have on the economy.

But Wells Fargo has given us two more reasons, one Democrat, one Republican. It appears as if Wells Fargo, for example, was too big to manage. Here you had, they hired 5,300 good people. They established a system that caused those people to commit 2 million felonies. They didn't monitor. They didn't notice. That is too big to manage and, and, finally, too big to regulate, because all the regulators at Wells Fargo missed this too.

Too big to fail. Too big to jail. Too big to regulate. Too big to manage. Please break them up.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, chairman of our Housing and Insurance Subcommittee.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Good morning, Mr. Secretary. I would like to have my questions in the areas of SIFI designations and community banking, so let me start out with the SIFI designation stuff.

Dodd-Frank calls for the automatic designation of any bank with more than \$50 billion in assets to be a SIFI. Mr. Secretary, we have had Barney Frank, the author of the Dodd-Frank bill, in this committee, sitting in that chair, who has testified in this committee that he told us that the \$50 billion threshold is arbitrary and that we should look at alternative methods for determination. We have also heard from other regulators, such as Chair Yellen, Governor Tarullo, also on this issue, and they support a different approach as well.

Would you agree that size should not be the only thing to determine what a systemically important financial institution is?

Secretary LEW. Congressman, I think ultimately the real issue is risk, and size is one indicia of risk.

Mr. LUETKEMEYER. Do you agree then it is not just size?

Secretary LEW. I think part of the challenge is that when people talk about what size bank is a big bank, the conversation is often unconnected to where the banks fall in terms of size. There aren't that many banks over 50, and when you talk about numbers like the piece of legislation did last year of drawing the line at 500, you are talking about only a very few institutions. Some of the largest institutions are in between.

Mr. LUETKEMEYER. Mr. Secretary, I have just a few minutes here please.

My piece of legislation takes away all of the size definitions. Size is only one issue. As you can see there is on the board here—you probably can't see it from where you are sitting.

Secretary LEW. I can't read it from here.

Mr. LUETKEMEYER. Behind you is a copy of a chart from the Office of Financial Research Brief Series dated April 13, 2016, and this is how globally systemic important banks are determined. And as you can see, there are five separate things, and those separate criteria are exactly the five criteria that I have in my bill: size, interconnectedness, suitability, complexity, cross-jurisdictional activity.

If those are good enough to determine a G-SII, should they not be good enough to determine what a SIFI is here in the United States?

Secretary LEW. I think the challenge is that the designation process is a very cumbersome one, and if you were to require the decisions firm by firm for every single firm, it would require a much more massive structure than we currently have.

Mr. LUETKEMEYER. A minute ago, though, you said that complexity is something we need to take a look at. Yet now you are going back to size. If you do that, we are looking at an institution that is \$50 billion at the bottom end of this versus the larger banks that are \$2 trillion. That is 40 times difference in size.

Secretary LEW. Yes, I totally agree that there is a difference.

Mr. LUETKEMEYER. How can a bank that is \$50 billion—

Secretary LEW. We have tried in every way that we can to use regulatory flexibility and keep looking for new regulatory flexibili-

ties and to treat firms differently based on what is appropriate to their risk level.

Mr. LUETKEMEYER. The way to treat them more equitably and more fairly and more flexibly is to support my bill from the standpoint that suddenly we have different criteria that you as a regulator can use. This is something that even the Office of Financial Research says is a way to go about it. So it is a little frustration on my part.

Can you tell me, sir, what the cost is to designate a SIFI?

Secretary LEW. I would have to get back to you on what the cost. It is a long process.

Mr. LUETKEMEYER. Okay. What is the cost to de-designate? And you have already got—

Secretary LEW. I am sorry. I couldn't hear you.

Mr. LUETKEMEYER. What is the cost to de-designate? You have already got all the information. Your examiners are in the banks. They live there. You have all the information at hand. What additional costs are there to de-designate? Or would there be additional costs?

Secretary LEW. Which institutions are you talking about right now, Congressman?

Mr. LUETKEMEYER. The ones that are designated SIFIs.

Secretary LEW. The ones that FSOC has designated?

Mr. LUETKEMEYER. Yes, the ones that are designated—

Secretary LEW. The largest firms?

Mr. LUETKEMEYER. Yes, the ones that are designated by the \$50 billion threshold.

Secretary LEW. So there are two different issues. We have designated 12 institutions that are large nonbank institutions for insurance companies—

Mr. LUETKEMEYER. Yes, but the ones that are over \$50 billion, sir, also have to pay fees, have to be under the same regime, regulatory regime, as the big guys.

Secretary LEW. That is not an FSOC determination. They are covered under Dodd-Frank for oversight and supervision.

Mr. LUETKEMEYER. Okay. Okay.

Secretary LEW. We don't make the designation.

Mr. LUETKEMEYER. But my question is, you already have the information to designate them, what additional costs are there to de-designate? I am just asking a question about cost, not whether you can or not. I am just asking about cost.

Secretary LEW. I think the process of determining whether they are covered now is a fairly simple one, because it is based on a review of information that is available on size. If you had an individual firm-by-firm review to see whether you meet multiple criteria, it is a very different process than the current one. So for me to answer the question in the current versus—

Mr. LUETKEMEYER. Okay. One more quick question. One more quick question. My time is totally expired here.

In my home State of Missouri, we have 44 banks less than \$50 billion at the end of 2015. Twenty-six of them lost money. Those are all targets for merger. In fact, one in my district 30 miles away from me was merged on Monday morning. This is all due to the

complexity and the increased cost of compliance. What are you going to do about that? Does concern you at all?

Secretary LEW. I agree with you that small financial institutions, community banks, and regional banks play an important part in our financial landscape. They meet important needs. We are continuing to look for how we can craft flexibilities that are appropriate so that we can make sure that the risks are visible but not overly burdensome. And we look forward to working together to find ways to do that.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New York, Mr. Meeks.

Instead, the Chair recognizes the gentleman from Texas, Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Mr. Chairman. And thank you, my good friend, Greg Meeks. Thank you.

Mr. Secretary, thank you for your testimony today. We appreciate your efforts as chairman of the Financial Stability Oversight Council to identify the risks to our financial stability and to respond to emerging threats and vulnerabilities in our financial system.

The chairman's Dodd-Frank repeal bill, which received bipartisan opposition in the committee this past week, would provide a so-called off-ramp for Dodd-Frank and Basel III's capital and liquidity requirements and it would replace those safeguards with an insufficient leverage ratio that fails to contain the guardrails in other proposals. For example, while the chairman has attempted to conflate this bill with proposals from people like FDIC Vice Chair Thomas Hoenig, the chairman's proposal doesn't include the same limits on derivatives activity in order to receive regulatory relief.

So, Mr. Secretary, my question is: Can you discuss how replacing more complex risk weights along with other Dodd-Frank measures might make sense for community banks engaged in traditional banking activities but is wholly insufficient when it comes to global mega banks?

Secretary LEW. Yes. Congressman, that is a very good question. I think we should be looking for ways to simplify reporting, where appropriate, for small banks that don't engage in a lot of risky activities. We have to always be aware that even small banks are in the business of making risk decisions. That is what banks do. And we have seen in the past that in the accumulated activity, small institutions can create a financial risk that is significant, but it is different than the activities of large global financial institutions. And we should be trying to distinguish.

For the largest financial institutions, I think if you look at what we have done in financial reform and Wall Street reform that has made the system safer, we have gotten much more transparency. We see what they are doing. We see what they are holding. We understand how it is connected to the financial system. They have capital buffers internally. So when they take risks, we know how much of the risk that they are taking they can absorb before they have to look outside for any kind of help.

I think if we were to roll that back, it would be terrible. It would be—we have done it, a lot of other major economies have done it. If you look at how the global financial system responds to shocks nowadays, we could just look back to the week after the vote in the United Kingdom on Brexit. There was a sense of confidence in financial institutions that just wouldn't have existed without financial reform.

Mr. HINOJOSA. Thank you for that clarification. So what impact would H.R. 5983, the chairman's Dodd-Frank repeal bill, have on financial stability and international confidence in the U.S. banking system and capital markets if it were enacted?

Secretary LEW. Look, I believe that if we were to roll back some of the protections in Wall Street reform that that legislation would roll back, it would bring back concerns about the stability of the U.S. financial system the next time there is a bump in the road. Bumps in the road happen. They are either geopolitical or economic. You want a financial system that can withstand those kinds of shocks. We are in a much stronger place now, and I think it is a mistake to go back.

And if I could just add, there is some things we still need to do. From the back and forth a few minutes ago, you wouldn't know it. We are pressing very hard for executive compensation rules to be finalized by the regulatory bodies so that we can align risk-taking incentives and compensation in a better way.

Mr. HINOJOSA. I agree that we have come a long way in recovery. So let me ask a question on the economic recovery of our country. Much more progress needs to be made in order for us to climb out of that hole created by the 2008 Great Recession, which was spurred by an historic Wall Street-created financial crisis. Tell us, to what extent would our progress have been even more remarkable had the Republicans in Congress not been so committed to fiscal austerity?

Secretary LEW. Congressman, I believe that the early imposition of tight fiscal controls was actually something that held back our recovery here in the United States. We would have grown faster if we had put longer term deficit reduction in place, not slammed on the brakes so quickly.

Mr. HINOJOSA. Would GDP be higher today?

Secretary LEW. I believe it would. And we have seen, since we have more sensible policies through two budget agreements putting in place longer term savings and freeing up short-term spending, the economy has actually done better.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, chairman of our Monetary Policy and Trade Subcommittee.

Mr. HUIZENGA. Thank you, Mr. Chairman. So many issues, so little time.

I do want to say, first of all, congratulations, Mr. Lew. Oftentimes, depending on who is sitting in there, you get a Jekyll or Hyde performance on the other side of the aisle. Quite honestly, I am waiting for the outrage of the other side with vaunted claims of how the economy has benefited Hispanics and African Americans that you just spoke about in your testimony. A robust economy is

needed for all. Unfortunately, this Administration has not provided that. Wall Street is doing just fine. Main Street is not. And inter-city Main Street is even doing worse. And I just—it is, I guess, going to the dogs characterization depends on who is sitting in the seat. So they like who is saying it, just not what is being said.

I got just teed up. Now I had a question at the end of this, but I got teed up by my colleague from Texas about this. You testified as well that Dodd-Frank and the Council have “made the financial system safer.” However, former Treasury Secretary and Harvard president Lawrence Summers says that “major financial institutions don’t look any safer than they were before Dodd-Frank and may even be more risky.” He also flagged Dodd-Frank’s myriad of regulatory restrictions as a prime suspect for this duplicity. So I am going to follow up with that in a written question. But I am going to give you literally 20 seconds here to address that.

Secretary LEW. I don’t think that paper in any way called for rolling back Wall Street reform.

Mr. HUIZENGA. But it said it didn’t work.

Secretary LEW. I think what it did was it looked at one indication, market evaluations, and used that to do some analysis. We have seen markets get things wrong. They didn’t predict the subprime crisis because of what was going on in the financial sector. It didn’t predict the outcome of the vote in the United Kingdom. So I would be careful to just assume that one thing—you have to look at the whole picture.

Mr. HUIZENGA. While we are on the United Kingdom, obviously we saw that European unity was something that has been called for as Greece has been bailed out before. We have had this personal conversation. I have contacted Treasury Department well over a year regarding further IMF financial participation in a Greek bailout, and I am urging you to oppose that. Even former executive director of the fund who voted for the first bailout has come out against a third one.

Since you last appeared before us, the IMF’s evaluation office released a scathing report on the fund’s involvement in Greece, blasting its debt sustainability analysis and concluding, “that the best governance was not practiced, as the board was poorly informed and too late in several instances, and as a result the decision-making and supervisory roles of the executive board were undermined.”

At some point, we have to acknowledge the damage the IMF’s credibility has been immense. And you have stated that it was important for European unity. We have seen elections, the Brexit in England. We just—recent elections in Germany that I am sure have many of your colleagues over there very concerned.

My next issue is the World Bank. And, Mr. Chairman, I would like to submit for the record a couple of letters to the record that were sent by Ms. Moore, my ranking member, and myself. We wrote a letter to President Kim—

Chairman HENSARLING. Without objection, it is so ordered.

Mr. HUIZENGA. —expressing our alarm over a failed transportation project in Uganda. This project was linked to the sexual exploitation of children, among other appalling consequences. Moreover, the bank’s new safeguards have been criticized for ignoring human rights, even as they protect, and this is not a joke, the

rights of farm animals. Given all this, I hope we can work together so that the ongoing IDA negotiations result in realistic commitments as well as true reforms at the bank.

Thank you.

And finally, just kind of rounding off, going back to the chairman's questioning on Iran. There was a letter to Senator Marco Rubio in June that Thomas Maloney, the senior at Legislative Affairs, said: The Administration has not been and is not planning to grant Iran access to the financial system. To be clear, until Iran has addressed other concerns we have with its behavior outside the nuclear file, the U.S. financial system, including the branches of U.S. financial institutions abroad, will remain off limits to Iran, and U.S. persons will not be able to provide financial services or products to Iran without explicit authorization.

Iran's behavior is outside of the nuclear profile. Terrorism remains unchanged. You even said that earlier. You said it hasn't gotten worse. That means it hasn't gotten better either. Just yesterday, you announced the authorization of U.S. financial institutions to finance aircraft sales. Doesn't this contradict your written assurances to Congress?

Secretary LEW. No, Congressman. The licenses that were issued yesterday for aircraft were something that were negotiated in the Joint Comprehensive Plan of Action, and they were consistent with it. It goes only to entities that do not engage in terrorism and it cannot be used—

Mr. HUIZENGA. The \$1.4 billion in cash was consistent with it too, but it doesn't make it right.

Secretary LEW. The U.S. financial system remains closed, except for very specific purposes. And this I don't believe—I am not aware of a transaction through a U.S. financial system that will support it. But a licensed activity is the only exception.

Mr. HUIZENGA. My time has expired.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New York, Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman.

And let me first welcome you, Secretary Lew. It is coming another way, but as a member of this committee and a member of the Foreign Affairs Committee, I think that I want to—this piece talking about the settlement payment to Iran, as I see what they put up on the board and I have heard the questions by the chairman when I was listening in my office, it just seems to me that my colleagues on the other side of the aisle are using as fodder for a convenient political spin. They are playing politics this election year. And the majority have quickly turned to these talking points about the Administration's settlement being a ransom payment. This despite the fact that the Obama Administration had, in fact, briefed Congress in advance, I say that again, it had been said before, Congress was briefed in advance of the \$1.7 billion settlement of a longstanding claim with the Government of Iran. You did brief Congress. Is that not correct?

Secretary LEW. It was fully described by the President at the time, and we briefed Congress at the time.

Mr. MEEKS. And it is not the first time, nor is it unusual that—in fact, I think that it was a smart thing using leverage when conducting diplomatic negotiations. That is a common and smart strategy that is utilized not only by this Administration but has been done by past ones also. Is that not correct?

Secretary LEW. I believe that settling something for \$1.7 billion when you were exposed to \$5 to \$10 billion of risk is the right outcome.

Mr. MEEKS. In fact, that is right. Because isn't it true, Mr. Secretary, that had the Administration not negotiated the Hague settlement, we would have ended up ultimately paying much higher for the 1979 failed arms sale?

Secretary LEW. I believe that we resolved it in a way that saved the United States and U.S. taxpayers substantial exposure.

Mr. MEEKS. And on top of that, for the record, on top of that, since the establishment of the U.S.-Iran Claims Tribunal, all U.S. citizens' claims against Iran that were registered under the Algiers Accords have also been resolved, and Americans, as a result, by us doing that, have gotten about—what is it? About \$2.5 billion in payments?

Secretary LEW. Yes. I don't know the total, but to my knowledge, they have all been paid.

Mr. MEEKS. So let me—and the record should be clear about that, that this was a smart deal done utilizing leverage that you had. You have leverage, you don't give it up, you utilize it. That was done by the Administration. And the fact of the matter is, I would like to say that it was something that nobody else did, it was unique, your thought, but other Administrations have done the same thing. Democrats and Republicans. Is that not correct?

Secretary LEW. Settling outstanding claims?

Mr. MEEKS. That is right.

Secretary LEW. Yes. It is not a new phenomenon. It obviously is a new conversation. For decades, we haven't had an ability to have a conversation with Iran to settle this. And we faced the possibility of an enormous judgment against the United States.

Mr. MEEKS. So let me go back to what we were talking about, in the time that I have left, and that is dealing—which is FSOC. Because FSOC, which was created by Dodd-Frank Act, is something that I believe is an absolute necessity as a framework so that we can deal with the complex multisector interconnected financial risks in our financial markets. And I encourage FSOC to further embrace greater transparency in its designation process and in how designated entities would be regulated. Because it is key, I strongly believe that we should emphasize and focus on working with the designated firms so that they can de-risk, if we work with them, and they no longer become risky, it is much better to eliminate systemic risk as opposed to supervising it. Is that not correct?

Secretary LEW. Yes. Congressman, I actually think that the process the GE went through demonstrates that it is a two-way street. GE, for its own business reasons, changed its focus to go back to being an industrial as opposed to a financial firm. It came and made the showing that it was no longer engaged in the activities that caused it to be designated, and we quickly responded by redesignating. And we have not—for the debate about designation,

you would think that hundreds of firms have been designated. It is four nonbanks and eight utilities. We are not out going aggressively to designate firms. We identified firms with a high level of risk. And if another firm were to appear that presented risk, we should go forward.

But we always lay out the basis for designation so that they know what it is that is making them be designated. And it is a business decision whether they want to be in the form they are with some additional oversight or change their business structure. It is not like being designated stops you from doing your business. It just means we have more visibility so we can see what is going on.

Mr. MEEKS. Thank you. I had another question, but I think I am out of time and I don't want to hear that gavel from the chairman.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Wisconsin, Mr. Duffy, chairman of our Oversight and Investigations Subcommittee.

Mr. DUFFY. Thank you, Mr. Chairman.

And welcome, Mr. Lew. I want to go back to your Iran deal. I think you testified that wire transfer payments were made to Iran before the \$1.7 billion cash payment and—

Secretary LEW. I testified that one \$900,000—

Mr. DUFFY. Went before.

Secretary LEW. Yes.

Mr. DUFFY. And—

Secretary LEW. Sometime before.

Mr. DUFFY. That is my recollection too. And a wire transfer also went to Iran after the cash payment. Is that correct?

Secretary LEW. Yes.

Mr. DUFFY. So the fact is, per your testimony, that wire transfers to Iran are possible. I will take that at face value.

Secretary LEW. No. Congressman, it is very important.

Mr. DUFFY. No, no, no, no.

Secretary LEW. The wire transfer—you have to understand what a wire transfer does.

Mr. DUFFY. I am—my time. Let me get to my question, though.

Secretary LEW. What you stated was incorrect.

Mr. DUFFY. I am going to repeat my question.

Secretary LEW. So I just want to make it clear what you stated was incorrect.

Mr. DUFFY. Now, you made a wire transfer before the cash payment, you made a wire transfer after the cash payment. And the President told the American people that we could not wire the money. So it leads me to believe that the Administration has not been truthful—

Secretary LEW. No, Congressman.

Mr. DUFFY. —with the American people, based on your testimony today, because wire transfers could take place.

Secretary LEW. Indulge me to answer your question. The wire transfer goes to an account in a foreign bank. A European bank, say. It doesn't go to the Central Bank of Iran directly. The question is, if you have a contract settlement with a party that you have no trust, they don't trust us, we don't trust them, they are not asking can you get the money to an account that they may or may not be

able to get access to. It was part of the negotiation to get the money to the Central Bank of Iran.

Mr. DUFFY. Okay. So but wire transfers can take place. And the wire transfer before the \$1.7 billion and the wire transfer after the \$1.7 billion, were those also converted to cash?

Secretary LEW. Just as a factual matter, Congressman, it was quite—

Mr. DUFFY. Yes or no.

Secretary LEW. —it was quite challenging for Iran—

Mr. DUFFY. Were those converted to cash?

Secretary LEW. —to get access to that money. It was quite challenging.

Mr. DUFFY. There's a reason for that. Right? They are the lead sponsor of terror. We have rules in place so they can't access cash.

Secretary LEW. I enforced those rules. Yes, I understand those rules.

Mr. DUFFY. So let's talk about the rules. In the Code of Federal Regulation, you can't load up a plane full of cash in the U.S. and fly it to Iran lawfully. So to get around that rule, what did you do? You wired the money to Europe and then had it converted to cash and sent to Iran so you didn't violate the law. So, yes, you complied with the law, but you got around the spirit of the law. Right?

Secretary LEW. Congressman, we have successfully cut Iran off from the U.S. financial system. When we agreed—

Mr. DUFFY. I agree.

Secretary LEW. —to settle a legal claim with Iran, part of that agreement is you make payment. The way you make payment is you wire money to their account or you—

Mr. DUFFY. Convert it to cash?

Secretary LEW. The question was, how do they get access to the payment of the settlement? And we worked through foreign banks, and they wanted access—

Mr. DUFFY. Mr. Lew, the problem—

Secretary LEW. —which was not unreasonable, given that it was a negotiated settlement.

Mr. DUFFY. It is unreasonable because this is a bad deal.

Secretary LEW. No, Congressman.

Mr. DUFFY. No, Mr. Lew. They are the lead sponsor of terror in the world.

Secretary LEW. Let's go back to the deal.

Mr. DUFFY. We have cut them—no, no. We have cut them off from cash because cash is the currency of terror.

Secretary LEW. Yes.

Mr. DUFFY. And so when you make payments, yes, you are going to make it to a foreign bank. And they are restricted in how they might use that money. And they want to access the cash because the cash is untraceable and they can use it for nefarious things that we object to. And you made the payment anyway in cash.

Secretary LEW. Congressman, the Joint Comprehensive Plan of Action gives Iran access to its own money in international banks.

Mr. DUFFY. I don't have much time left.

Secretary LEW. No. Let me answer your question, Congressman.

Mr. DUFFY. Hurry up.

Secretary LEW. This is a very important question. Part of the agreement that caused Iran to dismantle its nuclear program and increase their—make it take 12-plus months, not 3 months, to develop a nuclear weapon—which they dismantled their nuclear program. We had to keep our part of the deal, which was to give them access to their own money.

Mr. DUFFY. In cash, right.

Secretary LEW. They have been having a hard time. And I am not going to apologize for saying we need to keep our deal. They need to get access to that cash.

Mr. DUFFY. I am going to reclaim my time. I heard you—

Secretary LEW. And in the case of settling a contract—

Mr. DUFFY. We can have a disagreement on—this is my time, though.

Mr. Lew, I have—

Secretary LEW. Mr. Chairman, can the Congressman get a few more seconds so I can answer his question? We shouldn't have to talk over each other. This is a very important matter.

Chairman HENSARLING. Without objection, but the time belongs to the gentleman from Wisconsin.

Mr. DUFFY. If I could have unanimous consent for another 30 seconds?

Chairman HENSARLING. Without objection, the gentleman is accorded an extra 30 seconds.

Secretary LEW. I respect the question. And I don't want to be talking over each other. I would like to explain it.

A deal is a deal. When you have a country dismantle its nuclear program and you give them access to their money, that means they are going to get money. It is going to go to the Central Bank. We knew that. We said all along we are going to make sure that we keep our eye on what they do in terms of nefarious activities and use our other authorities to stop that.

Mr. DUFFY. I have given you the time, but I only have now 30 seconds. But I know, I wish I had more time. I wish I did, but maybe we will talk over coffee one day.

Secretary LEW. But the other half of my comment actually is very important.

Mr. DUFFY. Can you guarantee—Mr. Lew, you say you cut a good deal, you are proud of the deal. Can you guarantee the American people that that \$1.7 billion in cash will not be used to fund terror?

Secretary LEW. Look, Congressman, I have said—

Mr. DUFFY. I will take that as a no. Yes or no.

Secretary LEW. These are not yes or no questions.

Mr. DUFFY. They are yes or no questions.

Secretary LEW. Be serious, Congressman.

Mr. DUFFY. I am very serious.

Secretary LEW. All right. Then give me a chance to answer your question.

Mr. DUFFY. This is a serious issue.

This is a yes or no. I have a few more moments. So in regard—

Secretary LEW. Congressman, if I have the time, I will answer your question. If not, let's be serious.

Mr. DUFFY. It is a yes or no. So I have one more question for you. We have unfrozen assets. Right? Whether it is \$100 billion or they

had payments, that is only \$40 billion. Do you know if any of that money has also been allowed to go to Iran in cash or gold or any other—

Secretary LEW. Congressman, people are coming up with all kinds of—

Mr. DUFFY. You are the Treasury Secretary. That is why I am ask you.

Secretary LEW. I have seen things—

Mr. DUFFY. I am asking the Treasury secretary.

Secretary LEW. We have—we gave—

Mr. DUFFY. Yes or no.

Secretary LEW. Mr. Chairman, may I answer the question?

Congressman, you—

Chairman HENSARLING. Please answer the question.

Secretary LEW. —have a letter that our department sent you describing the transfer of cash. We have laid it out clearly. We have come up and given classified briefings. We continue to.

Mr. DUFFY. My question for you that you wanted to answer, and I guess if he could answer the question. He has asked for it, Mr. Chairman, and I ask unanimous consent to allow that.

I am now talking about the \$100 million of unfrozen assets that might only be \$40 billion. Not even \$100 billion. Any of that money that you are aware of as the Treasury Secretary, not rumors, but you as the secretary, do you know if any of that money has been allowed to go to Iran, of those unfrozen assets, in cash or gold or any other kind of currency payment?

Secretary LEW. Congressman, the—

Mr. DUFFY. Yes or no.

Secretary LEW. Congressman, the money is Iran's money. And when it comes to the Central Bank of Iran, one way or another, it gets turned into cash that they can use. So you are only talking about what mode of transfer.

Mr. DUFFY. Because you—

Secretary LEW. I am not aware of cash transfers.

Mr. DUFFY. You have allowed it to happen, sir.

I yield back.

Chairman HENSARLING. The time of the gentleman has long since expired.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney, ranking member of our Capital Markets Subcommittee.

Mrs. MALONEY. Thank you, Mr. Chairman.

And welcome, Secretary Lew. I want to ask you about cybersecurity. And as you know, there have been several reported examples where hackers have successfully stolen banks' credentials for the SWIFT system that banks use for international payments, and then used these stolen credentials to initiate fraudulent funds transfers. In one case, hackers were able to steal \$81 million from the Bangladesh Central Bank's account at the New York Fed.

And I am concerned, and I want to know are you concerned, that repeated instances of fraudulent transfers through the SWIFT system will undermine the confidence, and I would say, the safety and soundness of international payments, and do you believe that this poses a systemic risk?

Secretary LEW. Congresswoman, obviously we are aware of the reported intrusions into the SWIFT system. And I would have to refer you to SWIFT for detailed responses on that.

We do have confidence in the integrity of the global financial system, but we are also very much aware of the risks that the threat of cyber attack presents to every part of our financial system, and really every part of our electronic lives. It is true about utilities. It is true about virtually every system that we deal with.

That is why the President has been so clear that we need to take the strongest action to have a coordinated approach to both putting best practices in place, sharing information, removing the stigma of being attacked. Because whether you are a business, a government, or an individual, you didn't necessarily do something wrong that you were attacked. We have to stay a step ahead of the bad actors. That means that the more you know about how attacks are made, the more you can build systems to protect against them. You know that the attackers are going to come up with something new. It is not like they will stop where they are. We need to make sure that systems are updated so that you have the right equipment as well as the right software approaches.

I think this is going to be a part of our lives for some time to come. We have to make sure it doesn't become a threat to financial stability. I actually think the financial system is a step ahead of most other sectors. But that gives me little comfort, because the financial system requires electricity, it requires all of the other things that are part of our broader infrastructure that we all depend on. This is a serious, serious challenge throughout our economy and the world.

Mrs. MALONEY. Thank you. I would also like to ask you about Brexit. And just 2 days after the FSOC published its annual report, the U.K. Voted to leave the European Union. And the day after that vote, the FSOC held an emergency meeting that was reported to discuss the financial stability and implications of the Brexit vote.

Now that you have had time to reflect and to study this and to consider various scenarios for how the U.K. Will manage its exit, do you see any real risks to the financial stability of the United States coming from the Brexit initiative? And if the U.K. And the EU fail to reach a deal on financial services before the U.K. Leaves, could that pose a systemic risk to our financial system?

Secretary LEW. Congresswoman, I think in the period right around the vote and after, there was very good preparation by central banks and by finance ministries to make it clear that there were sufficient resources in place to prevent what was a very volatile period from spilling over into a period of real loss of confidence. I think it was actually a measure of the success of financial reform that there was enough confidence in financial institutions because we knew what their balance sheets looked like, we knew what their capital was. And it gave central banks the ability to respond as decisively as they did.

Mrs. MALONEY. And lastly—my time is almost over, and I want to talk about you de-designated GE Capital. It was the first de-designation in the council's history. And this came after GE Capital made significant changes to its business model and divested nearly \$300 billion of assets. Now, some critics of the FSOC have claimed

that GE Capital only escaped after they sold off virtually all of their financial businesses, and that therefore FSOC requires companies to gut themselves in order to be redesignated. Is that true? Is the only way for a company to get de-designated is to really divest? Or was GE Capital a unique case?

Secretary LEW. Each designation is a unique case. It is based on the facts that are presented and the analysis of the company and the risk that it presents. In the case of GE, they made a business decision that, from my conversations with the company, had less to do with designation and more to do with their strategic vision of where the company should go. It had the effect of changing the analysis in a material way. And they were de-designated.

Every company knows why they were designated. They all understand what their strategic business plans are. And they have the basis for making the decisions for themselves.

Mrs. MALONEY. Thank you very much for your service.

Chairman HENSARLING. The time of the gentlelady has expired. The Chair now recognizes the gentleman from New Mexico, Mr. Pearce.

Mr. PEARCE. How are you doing, Mr. Secretary? Nice to have you here today.

Secretary LEW. Always a pleasure.

Mr. PEARCE. I could tell.

When the FSOC was created, basically you were charged with three statutory mandates, and the first being to identify the risk to the financial stability of the United States. So that is pretty well-established.

Now, in your report today, you say that for the first time ever we can identify and respond to emerging threats to the U.S. financial stability. And then you go on to say that the council, the FSOC council, convenes regularly to monitor market developments and take action when needed to protect the American people. And then you continue on even further to say that the FSOC is supposed to report on recommendations for specific actions to mitigate the risks.

For over 6 years, the Fed has kept interest rates extremely low. In fact, near the zero level. Mostly, the inflation doves in the Fed have downplayed the effect on the market. Now, just last week, you had the head of the Boston Fed, President Rosengren, he has been one of the biggest doves saying that there is no connection here. He came out and made a statement that says that he is concerned that easy money could be letting markets get out of hand as they were before the crisis. That sent the markets into turmoil.

And so a market that hadn't changed barely 1 percent in the previous month and a half suddenly was changing tremendously in the next 3 or 4 days. So the market is indicating some concerns that it might be true.

So I guess my question—I would like to also submit that article for the record, Mr. Chairman.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. PEARCE. And then you have also Veritude saying that they are not going to trade in the bond market because it is just too hard to price. It is too unstable.

Now, to me, those are things that in my small town New Mexico way seem like they could be impacts on the stability—the financial stability of the United States. But I was kind of surprised because I am just thumbing through, I haven't read the whole thing, but I am looking at your report, not just what you said here today, and I don't see much about monetary policy affecting the markets the way that they seem to be.

So I guess my question is, when you are ever sitting around talking to Janet Yellen, do you ever kind of look away from the TV cameras and say: We ought to be talking about this. It has a little effect maybe? Do you ever bring that up?

Secretary LEW. Congressman, obviously, like all of our predecessors, the Chair of the Fed and I talk to each other, both in meetings and out of meetings, and I would hope that that remains true, because as the two senior economic—

Mr. PEARCE. Okay. You are just now talking, sir. And with all respect, I am not trying to interrupt if you were really getting in saying: Yes, we have talked about it and stuff. But you are saying you want the conversation to be friendly and continue, and my time is escaping. And so I am not going to bother you anymore. I am just going to continue to make the points. Because I think that you are not looking at the financial instability at all that is coming up.

When I am talking a look here, the Wall Street Journal of May 20 says that it is not China, not the U.K. It is the lack of liquidity in the markets that is going to be a big problem. When I take a look at Bloomberg, they talk about today's postcrisis regulations intended to make banks safer and discourage risk taking are eroding profits and forcing dealers to rethink their business model. These changes have created a vacuum in the bond market making trading much riskier. And then they go on in the same report to say that all of this matters because the \$100 trillion global bond market is an essential part of the machinery that keeps the world economy going. And it is not even being referred to in your report.

And finally, then where it all comes down to hit the road, is September 21st, a \$1.9 trillion shortfall in the United States State and local pension fund is poised to grow as near a record low bond yields and global stock market turmoil reduce investment gains, that they are expecting 7 percent rate of return and they are getting 1 percent. And none of this is in your report, which leads me to think that you are not dealing with the financial instability of the U.S. at all.

I yield back, Mr. Chairman. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. And I have to say, I think that—well, first of all, thank you for your service to your country. And I think my predecessor, Joe Moakley, would be very proud of the job that you are doing.

Secretary LEW. I am proud to have been connected to him.

Mr. LYNCH. Yes. Good man. We miss him.

I do want to revisit the issue raised by the gentlelady from New York, Mrs. Maloney, around the SWIFT. That system was compromised. She is absolutely correct. \$81 million. Apparently, a transfer from the Bangladesh Central Bank, but the payment was authorized to the New York Fed, and then the money ended up in the Philippines, and there we lost track of it.

And so given the size, the volume of transactions between central banks and commercial banks on that SWIFT network, it does raise some concerns. And I was wondering—I did read a story in Reuters that we are in informal discussions with the Philippines. They would like to be part of TPP. Now, I am against TPP, but as long as you are having these discussions, one of the gaps in that whole theft of \$81 million was that the Philippines have created an exemption for their casinos under the antimoney laundering protocols that we have at FATF. And I am just wondering, in those discussions, if we could persuade, no matter where TPP goes, if we could persuade the Philippines to get in compliance with that antimoney laundering protocol that we have—with a lot of the FATF countries, that might be a good use of our time.

Secretary LEW. Congressman, I think in general, the more we bring other countries up to high standards of being able to stop illicit financial activity, to see money laundering, the better able we will be to take actions, not just in response to cybercrime, but in terms of funding of terrorism and other things of the like. I think the challenge of making sure our computer systems are safe is one that, as I was saying to Congresswoman Maloney, we deal with every day. Every CEO in the world deals with it every day. And it is going to be an ongoing challenge.

I know SWIFT is taking very seriously the breaches that have been reported. And it is going to require action kind of broadly through the financial system to stay ahead of these cyber attacks.

Mr. LYNCH. All right. Chairman Hensarling has set up a terrorist financing task force here that I share with Mr. Fitzpatrick. And we are just very concerned. In the Philippines, Abu Sayyaf is very active there. So God knows where this \$81 million went. But that would certainly be a problem.

I want to revisit the SIFI designation process a little bit. I know that the courts rejected the application of SIFI to MetLife. And I am just curious how that has changed your analysis. And I know you have sort of a three-stage review there. How is that going? Do you think MetLife is a risk because they have been declassified, I guess, de-designated?

Secretary LEW. To be clear, a lower court has ruled in favor. We have appealed that. We believe we have the legal case to prevail on appeal. So we don't believe that the end of the MetLife case will be to de-designate, but that is obviously up for the courts to decide.

I think the process we went through was a rigorous one. The record supports the decision that we made. And I think some of the basis for the court's decision is very flawed. I have made that clear. That is something that our appeal makes clear.

Mr. LYNCH. Yes.

Secretary LEW. I think going forward, the point I made earlier is, I think, very important to keep in mind. We have not designated 500 institutions.

Mr. LYNCH. Well, I know that.

Secretary LEW. We have designated 12.

Mr. LYNCH. You said previously there are a very, very small number of companies and utilities.

Secretary LEW. And they are—for a reason. Because they are so—

Mr. LYNCH. But let me—I just want to—my time is running out. So—okay. So there is this process that I hear from some of the companies and banks that might be affected that—and it was cited in the lower court's decision, that there is not enough flexibility for them to adjust their structure in a timely fashion to avoid SIFI designation. Is that something you are working on or—is that part of your response?

Secretary LEW. I think that the process of consultation in the designation process has been very good. It has gotten better over time, but it has been very good all along. I think—

Mr. LYNCH. That is according to you, just so you know. Some people don't feel that way. But I agree with you.

Secretary LEW. I think that it is not because there is a misunderstanding. It is because of basic issues of what businesses are doing, what they are about. And it is not that it—we obviously think that if decisions are made to reduce risk, that is a good thing. But if you are going to maintain a business organization that presents a high degree of risk, having oversight is important. It doesn't put anyone out of business.

Mr. LYNCH. Okay. Thank you for your indulgence, Mr. Chairman. I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Royce, chairman of the House Foreign Affairs Committee.

Mr. ROYCE. Thank you, Mr. Chairman.

Mr. Lew, welcome.

Secretary LEW. It's good to be with you.

Mr. ROYCE. We are glad you are here. I know that back in 1986, you sat next to Tip O'Neill back when he and Ronald Reagan were working on the 1986 Tax Act. And I was wondering what advice you might give maybe the next Administration in terms of how the Speaker and how the President could work on the compromises that would get us to a result, in my view, like that one. I think you are somewhat optimistic about the consequences of the economic growth that we saw after the 1986 act as well.

So I wanted just to speak for a second to this issue you mentioned about this bipartisan widespread agreement that our current business tax rate is stifling economic growth and that it is making us uncompetitive. And there is an agreement, I think, on the need to eliminate loopholes. And I think also some of us who agree we should be taking tax revenue from money parked overseas to pay for infrastructure projects here, there is perhaps that element too that could help move this through.

There seems to be some disagreement on whether to include small businesses that file on the individual side to include the passthrough companies. And I have followed your thinking through the years. I know early on, you thought it should all be done at once, and last month, I think you mentioned it needed to be broken

up in terms of how it was handled. But I thought I would ask you that question, and especially in terms of how we were able to achieve that result in 1986.

Secretary LEW. Congressman, it is a great question. It is actually something I have given a lot of thought to. I think we have made a lot of progress in the discussions on a bipartisan basis on business tax reform. I think in terms of how we should close loopholes, how we should lower rates, how we should deal with international income, have a minimum tax, I think that we have an emerging consensus that has the ability to get bipartisan support. I think you put your finger on something that has been an issue. And I think it is a misunderstood issue. And if I could take just a minute, I would like to explain why.

You can do business tax reform on the corporate side and provide a lot of benefit to small businesses by letting them deduct everything that they spend on investment by giving them simplified procedures. Real small businesses would benefit from where the emerging consensus for business tax reform is. The institutions that wouldn't—the businesses that wouldn't benefit are not small businesses. They are LLCs that organized after the last tax reforms to go from being corporations to being passthroughs. It is interstate pipeline companies, it is large financial firms like hedge funds.

I think that if we look at the impact on real small businesses, we can get there. And I hope that we can, like, break apart where the impact of individual rates really falls. It doesn't fall on the small neighborhood business. It is falling on these very large firms. And I think it would be a shame if that were to be an obstacle to cleaning up a business tax code that is profoundly broken. It is causing terrible consequences. We see the European commission now reaching into our tax base with state aid fines. That is a terrible thing. We need to stop it by fixing our Tax Code.

And you put your finger on what I think brings it together so we should be able to get bipartisan consensus, which is using the one-time revenue that comes from having a tax apply to overseas income, whether it comes home or not, to fund infrastructure. That is one-time revenue. It is a perfect use for one-time revenue.

Mr. ROYCE. Let me ask you another question too. And that is on the intersection of domestic and international regulations in the area of the Financial Stability Board. I am concerned that U.S. regulators, at least in part, rely on FSB determinations, yet FSB is not subject to the procedural due process. So I think we have an interest here in starting with FSOC rather than starting at the other end with European, Swiss-based FSB, where we end up without notice and comment or prohibitions on arbitrary and capricious actions, and then we work to accommodate the Europeans rather than the other way around.

Given the impact that designation can have on a company, why utilize a process that lacks some basic protections here? Why don't we reverse that process?

Secretary LEW. Congressman, we do it the way you want us to do it. The only designations that we make, we make based on U.S. procedures. The FSB is a policy shaping, not an action determining body. It is not binding on nations, but it does help bring other

countries closer to meeting our standards. And I think it is good for us to have other countries have higher regulatory standards.

Mr. ROYCE. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Secretary Lew, I want to go back to the Iranian discussion for a moment, but from another perspective. We all agree the Iranian agreement is done, it is there, and that it is—whether you agree with it or not. But here is my concern. We all must agree that as a result, right now, Iran stands flush with billions and billions and billions of dollars. And as you alluded to, much of their own money. And I respect the President. He has tried very hard with this deal. I respect that deal. But here is my concern.

We have an obligation to Israel to make sure that they have a memorandum of understanding. But here is the point, Secretary. The President recently issued his memorandum of understanding, and it is woefully weak. It is about the same amount of money as we did in 2008. Because, as you know, in the Naval Transfer Vehicle Act of 2008, we established a fact in law that the amount of military aid we give to Israel must make sure that Israel has the qualitative military edge. There is absolutely no way.

But the President, in his memorandum of understanding, giving Israel about the same amount of money that we gave 10 years ago when we had our foot on Iran's neck, the economy is down. Now they are flush with hundreds of billions of dollars more. So much so that they are now shipping weapons to Israel's enemies up and down and all around the place. As you know, we were able to successfully stop three shiploads of weapons going to the Houthis, going to Hezbollah, going to Hamas, Syria, all of those places.

My point is this. The President—some of us here in Congress want to work with the President. And I want to ask you if you could convey to him that David Scott wants to work with him. I have served on the NATO Parliament Assembly. I was the vice chair—the chairman of our Science and Technology Committee. We spent 2 years working on the Iranian agreement. I understand that. That is past. But now we got Iran, Israel's number one enemy, flush with all this money. And we have an obligation in the Naval Transfer Act of 2008 to make sure that they have the qualitative military edge. And they don't have it with the President offering—Bush offered in 2008, I think it was about \$3.3 billion a year, and the President is talking about like \$3.7 billion, when Iran is so far superior in its money. It has already put in \$19 billion for moneys in weapons from China and Russia, and all that.

So what I wanted to ask you was that if you could convey to the President that Congress has a step in this too. Let us work together. That memorandum of understanding for Israel, in order to make sure they had the qualitative military edge as by law we are saying, should be close to \$7 billion a year. It is Congress that appropriates that money. Give us a seat at the table. Let us work with him on it. Could you do that for me?

Secretary LEW. Congressman, I think just a couple points. First, I met yesterday in New York at the U.N. with Israel's finance minister who saw the MOU as being very important in terms of guar-

anteeing Israel's both military and financial security. So I don't think your view is shared necessarily by the Government of Israel.

Secondly—

Mr. SCOTT. But let me tell you something, what my view is. I helped write that law in 2008. We made sure that they got the qualitative military edge.

Secretary LEW. Which we have continued to stand by.

Mr. SCOTT. And this does not—

Secretary LEW. We continue to stand by that, yes.

Mr. SCOTT. You don't have the qualitative military edge giving them the same amount of money.

Secretary LEW. I will leave the discussion of the military issues to our military experts. But this, as a financial matter, is a very important commitment between the United States and Israel. And I am proud that we were able to do it. I don't think—

Mr. SCOTT. Congress appropriates the money. Don't you think we have a role in that?

Secretary LEW. Congress always has the right to appropriate the money. I won't challenge that.

If I could just say, though, I think anyone comparing Israel's economy and Iran's economy, Iran has a broken economy. They have gotten some relief because of taking apart their nuclear program. But Israel has a very—

Mr. SCOTT. There is not a dime of that goes to the Iron Dome or to David Sling or to combat the traffic of weapons going to Israel.

Secretary LEW. And I totally agree with you. We should stand with Israel to make sure—

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Florida, Mr. Posey.

Mr. POSEY. Thank you very much, Mr. Chairman.

Secretary Lew, I have an issue that ties in with the chairman's question about the role of the Treasury in making payments. For 6 years, 6 long tortuous years, I have been fighting for a group of former hostages held captive by the Revolutionary Armed Forces of Columbia, better known as FARC. I know you are familiar with them.

You see, these men were on a U.S. Government counternarcotics mission when they were captured by the FARC. One American was executed and the other three were held hostage for 5½ years. They were subject to conditions that neither you nor I can even begin to imagine. Horrible.

After returning home, the former hostages were granted a judgment under the Antiterrorism Act for damages against the FARC. However, the accounts to fund this judgment have been blocked by the Treasury Department since the Office of Foreign Assets Control is now designating all FARC accounts as kingpin. Congress clearly wanted terrorism victims to be compensated when it passed the law to allow them to access the frozen assets of terrorists. But the Office of Foreign Assets Control has eliminated their ability to do that by designating all FARC assets as kingpin. A small change to TRIA would fix this.

The bill that accomplishes this, H.R. 3394, the Captive Act, passed the House unanimously. Totally bipartisan, unanimous, in July. Now I am hearing that the Office of Foreign Asset Control is blocking the bill in the Senate. In the meantime, the FARC peace accord includes reparations for Columbian victims of the FARC terrorism, and a \$450 million appropriation to implement the accord is waiting for Congressional passage. However, here we have American victims of terrorism who went through years of torture on behalf of the United States Government who have still not been compensated.

My question for you is: Will you please work with me and these former hostages who have suffered so much already at the hands of FARC so that they don't have to suffer at the hands of Congress and bureaucrats in the future, and let's get them compensated?

Secretary LEW. Congressman, I share your concern for victims of terrorism. And I understand that it is a very complex and heavily litigated issue regarding multiple claims to a limited pool of money. As I know you are aware, TRIA allows a person who has a judgment to go against blocked assets. But currently, the term "blocked assets," as defined by TRIA, gives access to funds that are frozen pursuant to two statutes, IEEPA and the Trading With the Enemy Act. IEEPA is the principal tool that we at Treasury use to sanction terrorist organizations and their members as well as victims of state sponsors of terrorism.

The Kingpin Act, as I know you know, is designed specifically to create tools to deal with the threat that our country faces because of the international narcotics trafficking. And amending TRIA to have the definition of blocked assets include property frozen under the Kingpin Act could very much undermine our efforts on that very important mission as well. So we would look forward to working together to pursue how we address the concerns that we share in terms of victims of terror having access to compensation. But our concerns are to protect another, I think, shared goal that we be able to take very decisive action to stop narcotics trafficking.

Mr. POSEY. I am a little bit confused how giving American patriots the same or equal consideration of foreign people who have been terrorized would undermine any of our security efforts to fight terrorism or narcoterrorism.

Secretary LEW. So the Kingpin Act is designed to provide resources that go against fighting narcotics trafficking.

Mr. POSEY. I understand that. But this is taking resources from narcoterrorists and compensating American victims. And, I just don't think there is any excuse for any bureaucrat in this country to hold up—to willingly, knowingly, willfully hold up the compensation of these gentlemen when it could be remedied so very easily.

Chairman HENSARLING. The time of the gentleman—

Mr. POSEY. I think there is a special place in hell for people that would do that.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger.

Mr. HECK. Mr. Chairman?

Chairman HENSARLING. For what purpose does the gentleman from Washington—

Mr. HECK. I thought the protocol was to alternate between political parties. I have not yet had my opportunity.

Chairman HENSARLING. I apologize to the gentleman from Washington. The gentleman from Washington is now recognized for 5 minutes.

Mr. HECK. Thank you, sir.

Mr. Secretary, thank you for being here. I thought it might be interesting if we return to the ostensible purpose of our hearing today, namely the Annual Report of the Financial Stability Oversight Council. And I want to direct your attention to page 16 and some of the language relating to housing reform.

Among other things, it says, "The Council recommends that regulators and market participants continue to take steps to encourage private capital to play a larger role in the housing finance system. Further, the council acknowledges that, under existing regulatory authorities, Federal and State regulators are approaching the limits of their ability to enact reforms that foster a vibrant, resilient housing finance system. The council therefore reaffirms its view that housing finance reform legislation is needed to create a more sustainable system."

So I am one who believes that it is a far stretch of the imagination to believe that conservatorship is a status which should exist in perpetuity. That it is implicitly by definition something that is temporary. So I would like to see us move forward. But yet it is not altogether clear to me what is meant and the whys behind these assertions in this report. For example, what is inherently unstable about the status quo, as much as I would like to see us move forward? I do not understand why it is the council believes that what we have is not stable as a consequence.

Secretary LEW. Congressman, we continue to have a housing finance system where most mortgages are in one way or another government backed, either through FHA or through the GSEs, which are in conservatorship. We think a more stable approach would be to have private capital taking risk, coming in, and having a mortgage market that is not dependent on having a backstop of government support.

Mr. HECK. Why would it be more stable? I understand why it would be—arguably, I would understand why it would be more vibrant and more dynamic, because if we were to increase private sector participation, we might have more innovation. But what is inherently unstable about how we do things now?

Secretary LEW. If ultimately the goal is to attract private capital into the housing market, it would be a good thing if we had avenues for private capital to have business models to get into the housing market and bear the risks that they are taking in a way that is not fully dependent on one or another form of government backstop. The challenge is how to get legislation that would permit the development of the structure that would meet those criteria.

Mr. HECK. I agree with all that, Mr. Secretary, except I still don't hear an answer to my question. What is unstable about how we are doing it now?

I agree with everything you said about the importance of moving forward with increased private capital participation, but the report

says that it would be more stable. What is unstable about how we are doing it?

Secretary LEW. If you go back to the period before the financial crisis, it was explicitly said that the government didn't stand behind the GSEs. Then there was a financial crisis and the government had to bail out the GSEs, which is why we are in the conservatorship now.

I don't think that anyone designed a system for permanent conservatorship or wanted a system of permanent conservatorship, but it requires legislation to move on from where we are. To me, as someone who cares deeply in long-term access to housing in this country, it would be better if we right now had a blueprint in legislation for what the mortgage finance of the future looks like.

Mr. HECK. Do you believe that home ownership, the percentage of the population enjoying home ownership, would increase if we were to allow for increased private sector capital?

Secretary LEW. I think it certainly could, yes. Obviously, it depends how it is done, so I can't answer in an unqualified way.

I think it is important that anyone who is creditworthy should have access to a home mortgage. I think right now we have a tighter credit box than is necessarily warranted, and we have tried through clarifying some of the regulatory issues, things like put-back risk, to ease the credit box some. But we also saw in the lead-up to the financial crisis that it is not a good thing for people who can't afford a mortgage to get in over their head.

So striking that balance right and having risks borne where the decisions to take a risk are being made would be a better way in the future. Obviously, we are going to do everything we can to keep the mortgage market healthy during the period of conservatorship.

Mr. HECK. Thank you, Mr. Secretary.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger.

Mr. PITTENGER. Thank you, Mr. Chairman.

Hello, Mr. Lew. It's good to see you.

Secretary Lew, did the Office of Terrorism and Financial Intelligence, did that office raise any concerns about the method of payment to Iran, the hundreds of millions of dollars in cash to a State Department-designated sponsor of terrorism? Did they raise any concerns?

Secretary LEW. Congressman, I am obviously not going to get into any individual things in this setting.

Mr. PITTENGER. They are under your purview, and I just asked you a direct question. Did they raise any concerns?

Secretary LEW. I would say that the view within the Treasury Department is that everything that we did was consistent with both good policy and the law.

Mr. PITTENGER. So they didn't raise any concerns?

Secretary LEW. I am really not going to comment one way or the other on what I did or I didn't hear from intelligence briefers.

Mr. PITTENGER. This is your Office of Terrorism and Financial Intelligence in Treasury.

Secretary LEW. We have consistently seen analysis and shared analysis that shows—

Mr. PITTENGER. Were you apprised of any concerns by that office?

Secretary LEW. Congressman, I was not briefed internally on reasons not to proceed with this transaction, but I am not going to describe who told me what.

Mr. PITTENGER. Did that office conduct any analysis as to the impact of sending ultimately billions of dollars over to Iran?

Secretary LEW. Congressman, we have done extensive analysis on what Iran is doing outside of the JCPOA, the Joint Comprehensive Plan of Action, and we have tried as best we can, and we have some ability to see what is going on, to see what the—

Mr. PITTENGER. How many banks operate—Mr. Secretary, excuse me, but we have limited time.

Secretary LEW. But I didn't answer your last question.

Mr. PITTENGER. How many banks operate under the SWIFT authority that gives them access to the international financial system, how many banks in Iran have that capacity?

Secretary LEW. I would have to get back to you, Congressman.

Mr. PITTENGER. That would be an important thing to know.

Secretary LEW. If I can just go back, it really is important to answer your last question. We have been looking to see if, as we said at the time the JCPOA was agreed to, that there would not be a substantial increase in funding, and we are not seeing the increase in funds available to Iran going to the purposes that we all want to stop. If we see it, we will stop it. If we see ships going, we will try to stop them.

Mr. PITTENGER. I think going through the financial system, through the SWIFT bank authority, has enormous impact.

Mr. Secretary, Pastor Saeed Abedini, he was one of the hostages. I went over and greeted him in Germany when he arrived. As he was waiting in Iran to depart from the Swiss airline, Swiss-provided aircraft, to go to Germany, he asked one of the guards: Why the wait? Why can't we board and leave? And Pastor Abedini testified in Congress and also in the media that they were waiting for a plane to arrive, and once that plane arrived, then they would be able to depart. And, of course, we have seen pictures of planes that arrived and bags coming off.

Did it ever really concern you that the reality of paying for these hostages, these ransoms, was not just perception, but in reality that is what the Iranians believed?

Secretary LEW. Congressman, I can't speak to what anyone else believed, but I can tell you what I understood at the time and what I know now. We had three separate negotiations, all of which were going on because a window had been opened at the same time. We didn't talk to Iran for decades, but with the negotiation of the Joint Comprehensive Plan of Action, we had the ability to negotiate for the release of Americans being held against their will. We had the ability to settle an outstanding legal claim. The fact that all those things came together is because we were talking to each another.

Mr. PITTENGER. When you see that the three hostages were released—

Secretary LEW. I couldn't hear you. I am sorry.

Mr. PITTENGER. In fact, it became very offensive to Pastor Abedini. He said: What is going to happen now is we have exacer-

bated the problem, and we are going to see a dollar amount put on every hostage.

Secretary LEW. But, Congressman, there is a fundamental difference between ransom, which is when you give your money to another party, than having separate transactions where you give a party its own money.

Mr. PITTINGER. It all happened at the same time.

Secretary LEW. And that is all this was.

Mr. PITTINGER. One last question I would like to ask you, 20 seconds. Mr. Secretary, have we ever paid cash in large sums to any other government before?

Secretary LEW. I would have to go back and check the history. We do a lot of business in a lot of ways. I know your time is almost up, Congressman. I know this has been a very difficult week in your city, and I just want to express my own personal sympathies to the families that have been injured and suffered a loss.

Mr. PITTINGER. Thank you. We need the leadership of Martin Luther King in my City today. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman.

Secretary, welcome back to the committee.

If I could just follow up on the questions from my colleague from North Carolina related to the Administration not seeing where the money is going, and I think your testimony was you don't see money going to terrorist elements. That kind of begs the question, if you are transferring money to the Government of Iran in cash, of course you are not going to see whether or not, that is the whole point.

Secretary LEW. We actually tried to keep track of what is going on as best we can see it in all ways.

Mr. BARR. But the question that has been asked and I am still looking for an answer is, can you track cash payments to Iran and whether or not that ends up in the hands of, say, Hezbollah?

Secretary LEW. So, look, the challenge—and this is an issue we dealt with directly when the Joint Comprehensive Plan of Action was being debated. I cannot tell you Iran will stop doing things we don't want them to do. We are going to do everything we can to stop them using those authorities.

But just as we had agreed in the JCPOA that they would have access to their money, we said we will do everything we can to stop the flow of money. But once money goes into the Central Bank of Iran, the mode of transfer is not the issue. We have the same challenge, if you had given them the money through a check, we would still have to watch where the money goes afterwards. We are doing that. We do not see it going.

Mr. BARR. Can you tell us in Congress and the American people today that the \$1.7 million that was transferred in cash is not funding terrorism?

Secretary LEW. Look, I understand that you are focused on the cash, but we are looking at how much money is going to support regional—

Mr. BARR. That is a no. I interpret what you are saying as a no.

Secretary LEW. Congressman, don't interpret me. I will speak for myself. I will speak for myself.

Mr. BARR. We all know you can't tell us whether or not that money is not going to be used—

Secretary LEW. Congressman, can you show me, contrary to our analysis, that we have seen—

Mr. BARR. The point is it was your testimony that you don't see it going to terrorism, but that is why you don't see it going to terrorism, because it is in cash.

Secretary LEW. No, Congressman, that is not why. That is not why.

Mr. BARR. Let me switch to another topic. Let me switch to another topic.

Secretary LEW. I can't in this setting describe to you everything that we know and see, but that is not correct.

Mr. BARR. This is evidence why the Iran deal is bad for America. It is bad for Israel. It is bad for our allies. And it is bad in terms of preventing terrorism.

Let me switch to another topic. Let me switch to another topic.

Secretary LEW. But, Congressman, you just got to the core—you just got to the core issue, which we disagree on.

Mr. BARR. The time is mine, Mr. Secretary. Let me switch to another topic.

Do small community banks and credit unions represent competition to large institutions like Wells Fargo?

Secretary LEW. I am going to go back and answer your last point

Mr. BARR. No, I really want to move on.

Secretary LEW. I really want to answer the last question.

Mr. BARR. You can send me a letter. We can visit afterwards. I really do want to move on to the issue of Wells Fargo. I would like to move on to the issue of Wells Fargo.

Secretary LEW. I think the world is safer with nuclear weapons not being 3 months away from development in Iran. That is a fundamental disagreement.

Mr. BARR. Mr. Secretary, can I ask you another question?

Chairman HENSARLING. The time belongs to the gentleman from Kentucky

Mr. BARR. Mr. Secretary, do small community banks and credit unions represent competition to large institutions such as Wells Fargo?

Secretary LEW. I think that there should be competition at all levels of the banking structure.

Mr. BARR. Do they represent competition to large institutions like Wells Fargo?

Secretary LEW. In some of their business they do.

Mr. BARR. According to the FDIC, at year end 2010, the year that the Dodd-Frank Act became law, there were 7,657 banks. By the end of 2015, the number had declined to 6,182. The number of community banks had declined by 14 percent, double the rate of that in the period leading up to Dodd-Frank. Credit unions, we have lost 1,500 credit unions in this country since Dodd-Frank.

So since the enactment of Dodd-Frank, the number of new bank charters can be counted on the fingers of one hand. You have few new charters, you have much fewer banks, and you have 1,500

fewer credit unions. You have less competition. Not a very good record for enhancing financial stability. And, I would add, eliminating the competition to large banks like Wells Fargo.

If I was a defrauded customer of Wells Fargo, I would be angry at the institution, no doubt about it. But I also would be angry that the promises from the politicians that Dodd-Frank was going to protect me are hollow promises and that maybe why that is the case is that large banks like Wells Fargo have less competition today.

Secretary LEW. Congressman, I think if I was injured by a financial institution, I would be glad that there is a CFPB out there to protect me

Mr. BARR. Let's talk about that, because the CFPB was around in 2011 when these alleged activities began, and it wasn't, in the timeline that I have seen, it wasn't until 2015 that the OCC got the CFPB involved. It looks to me like a case of regulatory incompetence.

Secretary LEW. I think if you look at how the facts unrolled here, the action that was taken this week reflected the OCC and the CFPB taking action, and there would have been no CFPB if it weren't for Dodd-Frank.

Mr. BARR. You know what? Far from an argument for enhancing the power of the CFPB, I think what the Wells Fargo scandal says is that we need to reform the CFPB so it actually focuses on its mission of protecting consumers instead of taking away choices from consumers.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Secretary Lew, over the last 7 years the spirit of Washington has been to never let a crisis go to waste, and the result of that attitude has been the crafting of rules that systematically take a wrecking ball to one industry after another.

Cambria-Rower Business College in Johnstown, Pennsylvania, for example, closed its doors this summer, after serving its community for over 100 years, because of the Department of Education's crackdown on higher education providers, thousands of coal miners have been laid off in my district and across the country as their employers have been bankrupted by Washington regulations, and millions have had their health insurance wrecked. As I have noted many times in this room, community banks are closing or consolidating in a desperate effort to stay viable in the face of a swarm of new rules and regulations.

And now, unfortunately, the Federal Government's wrecking ball has another target: money market funds. As you know, the July 2014 amendments to Rule 2(a)7, which go into effect next month, on October 14, require stable value institutional, prime, and tax-exempt money market funds to be offered only with a floating net asset value, or NAV. The FSOC annual report touches on money market funds, and I want to add some context here.

Many institutions face legal constraints or have policies that prohibit them from investing in cash pools that fluctuate in value. In

fact, for them the stable NAV is an intrinsically valuable feature of money market funds.

In anticipation of this rule, we have seen nearly \$1 trillion rush out of prime and tax-exempt funds. Prime funds, a key source of funding for corporations and banks, have dropped by 48 percent. Tax-exempt funds, which buy approximately 70 percent of the short-term debt issued by municipalities, universities, and hospitals, have dropped 42 percent.

And on that, Mr. Chairman, I would like to offer into the record letters to Senator Pat Toomey from the officers at Penn State and the University of Pittsburgh expressing concern about what is happening in this industry and support for Senator Toomey's legislation to address this.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. ROTHFUS. And also letters from the Allegheny County executive, the Allegheny County treasurer, and the mayor of Pittsburgh to my colleague, Congressman Doyle, expressing similar concerns.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. ROTHFUS. This has caused borrowing costs for firms, municipalities, hospitals, and schools to spike at a time when they need access to affordable capital, and much of the money that has moved out of prime and tax-exempt funds has gone into Treasury and government funds. In other words, the effect of the rule has been to stifle investor demand for commercial paper and debt issued by municipalities and important institutions in our communities and to stimulate demand for debt issued by the Federal Government and the GSEs.

This rule effectively subsidizes Fannie, Freddie, and the Federal Government at the expense of the private market and borrowers. This thwarts investor preference by forcing investors into government funds to get the stable NAV.

With all of this distortion and disruption and the tilting of the playing field, I don't think we can say that this rule is necessary or helpful. Money market funds have a long history of stability and security through the financial crisis, and I worry that this wrecking ball will take out an important and necessary part of our financial system.

Are you aware of the exodus of funds from prime and tax-free money market funds and the subsequent flow into government funds?

Secretary LEW. Congressman, we have been monitoring flow of funds. I don't think that the impact that we have seen is as dramatic as what you are describing, and I think—

Mr. ROTHFUS. I would encourage you to listen to the municipalities and the universities that are out there and to gauge what they are seeing.

Secretary LEW. So, Congressman, I think we have to—I am sorry?

Mr. ROTHFUS. Go ahead. You were going to say?

Secretary LEW. No, we have to remember that during the financial crisis there was a real concern about the stability of money market funds. There was a very careful, measured action taken by the SEC to try and put in place rules that would govern, which I

think are going to enhance financial stability. We are not seeing dislocations in the marketplace on a broad basis—

Mr. ROTHFUS. You haven't seen a trillion dollars move out of these funds?

Secretary LEW. I am not saying money hasn't—

Mr. ROTHFUS. Isn't that a significant dislocation?

Secretary LEW. I think that we are not seeing problems arising in the market where funding needs can't be met. And that is the metric that we look at. Is there liquidity in the market? Are markets working? And markets are working.

Mr. ROTHFUS. Would you agree that this has tilted the playing field? If you need a stable NAV and your only option is to go to a fund that has Fannie paper or Freddie paper or Treasuries, that that is going to have a preference over municipals and AAA corporate bonds?

Secretary LEW. I think you have to look at the whole picture, Congressman. We had a situation during the financial crisis where the risk that money market funds were going to break the buck? Almost took what was the worst recession since the Great Depression and throw a switch to make it a depression itself.

There was a serious issue here. I don't think the action taken has caused disruptions that to date have raised serious concerns. But we will look at it. Obviously, we will continue to look at it.

Mr. ROTHFUS. Again, I think you want to talk to the universities, talk to the municipalities, because this is a big issue for them.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Arizona, Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

It's always an interesting time when you get to come hang out with us, right?

Secretary LEW. It is never boring.

Mr. SCHWEIKERT. Can I do just an idiosyncrasy, but I am interested in this. And I ran over here, so I didn't have enough time, so I am doing part of this from memory. In, I think, April there is something, I think it is referred to as the 387 rule. It is how taxes or how you value if you have taken a stock interest in a loan.

Secretary LEW. 385

Mr. SCHWEIKERT. 385, that is it. Sorry. Thank you for correcting me.

If I remember just the preamble on the rule proposal was what, 75 pages? So the preamble trying to describe the proposed rule was actually longer than the rule itself.

Where do you see that? I know a number of organizations, a number of folks from Arizona, where we are a State that is very entrepreneurial and trying to desperately bring in capital and are worried about sort of the tax treatments underlying. And I know I am getting a little technical. But, first, where do you see those rule mechanics?

Secretary LEW. So, Congressman, we issued the 385 rule as part of our effort to make it harder for U.S. companies to invert, to take U.S. companies and change the address and avoid U.S. tax liability.

The reason the preamble was a bit lengthy is we raised a number of questions that we wanted to get comments on. So we weren't surprised that issues were raised. We raised the issues ourselves in the preamble.

While we got hundreds of comments, it all comes down to six issues, which we have been working hard at addressing, and I am pretty comfortable that we are going to be able to have a final rule that resolves many of the concerns that have been raised but that won't damage the principal purpose of the rule, which was to stop inversions and to stop earning stripping and taking unfair advantage of the tax system.

Mr. SCHWEIKERT. Those are two very different things, though. On one side, I will use—I despise the term earning stripping, I mean, between merged organizations or affiliated organizations and the recognition of do you consider this a stock holding or is it really a debt pledged with stock or convertible to preferred. That is different than the inversion debate.

So you could see from my view of the world as sort of someone that sees the world as an accountant, are we sort of conflating some of the different issues.

Look, it is a hard read. I accept that.

Secretary LEW. We have said all along that the best way to deal with inversions is through tax reform and legislation. We have limited administrative tools, and we use Section 385, which in its simplest way has broader impact than you need. We are working to address the consequences that are not central.

Mr. SCHWEIKERT. But do you think as you are sort of addressing towards the final rule, there is that—I am reaching—279, it is the tax treatment, where you can't recognize the interest costs between the organizations? I think that was also within the rule set.

Secretary LEW. Are you talking about the financial transactions between foreign subsidiaries of a U.S. firm?

Mr. SCHWEIKERT. Actually I think it is within an acquisition and the costs in between.

Secretary LEW. I am going to have to follow up and get the specific question.

What I can tell you about the way we have handled this rule-making is we have done it by the book, by the Administrative Procedures Act. We have gotten comments. We have taken meetings, hundreds of conversations. We have talked to committees of Congress of jurisdiction. And I think we are going to be able to put final rules out that address many of the concerns that have been raised.

Mr. SCHWEIKERT. I had one other question I have always wanted to ask you. If we would do tax reform, particularly if we would clean up our territorial tax system, solution?

Secretary LEW. I think what we have proposed and what I think there is bipartisan support for is something that is a bit of a hybrid system. We think that there should be a minimum tax on U.S. income overseas.

Mr. SCHWEIKERT. No, no, no, I remember that, but truly if we developed a true—

Secretary LEW. I think the hybrid approach is better myself.

Mr. SCHWEIKERT. Okay, be preferred. But I am a territorial tax system person, but it would solve—

Secretary LEW. But that is why I think there is a—in answer to Chairman Royce's question—I think there is the basis for a bipartisan compromise here. We have worked very hard to build that.

Mr. SCHWEIKERT. Okay, because you saw Chairman Brady a couple of months ago did sort of put out an outline, and within that was some territorial tax—

Secretary LEW. And Chairman Camp before him put out proposals that overlapped considerably with the proposals that we have put forward. I think that this is something tax writers should be able to work through early next year.

Mr. SCHWEIKERT. Okay. Just wonderful.

Can I steal 15 seconds?

Chairman HENSARLING. Fifteen seconds.

Mr. SCHWEIKERT. We have our demographic crisis. You in a previous life did some great writings in talking about what is about to happen debt-wise. Can I beg of your organization to at least do a solicitation of the appetite for long-term U.S. sovereign debt to see if we could maybe do some of our financing over the demographic bubble?

Secretary LEW. Congressman, we remain open-minded to new approaches, but we have done a lot to lengthen the weighted average of maturities.

Mr. SCHWEIKERT. Outside the current WAM, I am talking 45, 65, 100s.

Secretary LEW. I am happy to have a longer conversation. I can't with the gavel going.

Mr. SCHWEIKERT. Thank you, Mr. Chairman, for your tolerance.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Maine, Mr. Poliquin.

Mr. POLIQUIN. Thank you, Mr. Chairman, very much.

Mr. Lew, thank you very much for being here. I noted that when you walked in you indicated very clearly to me that you had not taken your Maine summer vacation. I want to let you know that Maine is a wonderful place to have a fall vacation, and I am sure your wife would greatly appreciate it, and we would appreciate it.

Secretary LEW. If only I got a fall vacation.

Mr. POLIQUIN. Yes, really.

Sir, Americans are very alarmed and very frightened about an increasing number of terrorist attacks here at home and abroad. Do you agree with the State Department's assessment that the country of Iran is a primary state sponsor of terrorism, yes or no?

Secretary LEW. We have implemented all of the rules on terrorism.

Mr. POLIQUIN. Do you agree that Iran is a state sponsor of terrorism, yes or no?

Secretary LEW. I have—

Mr. POLIQUIN. Mr. Lew, you are really good about not answering questions.

Secretary LEW. We have made that designation.

Mr. POLIQUIN. Do you agree that Iran is a state sponsor of terrorism, yes or not? Do you agree with the State Department?

Secretary LEW. I obviously agree that they are a state sponsor of terrorism.

Mr. POLIQUIN. Okay. You agree. I got it. Do you also agree that untraceable cash is the currency of terrorism?

Secretary LEW. I do believe that cash in the private economy is a big problem because you can't track it.

Mr. POLIQUIN. Great. Okay. So now let's go beyond. Okay, we agree on those two things. Thank you very much.

Secretary LEW. Congressman, just to be clear—

Mr. POLIQUIN. It is my time, not yours, my time, not yours, sir.

Now, you authorized the cash being flown into Iran. Now for whatever reason you authorized it, that is fine. That is your decision. I think it was a mistake, but you did it.

Now, my question is the following. I know that the United States Government owed Iran this money. How about if we had instead put pressure on them to abandon their support of terrorism and disavowed their goal in their public statements about destroying Israel? What if we just had not transferred, you had not authorized the transfer of cash to Iran until they gave up their goal of destroying Israel and stopped sponsoring terrorism? Wouldn't that have been a good idea?

Secretary LEW. As a simple matter, Congressman, we wouldn't have been able to resolve the dispute that left America at risk of having a \$10 billion settlement.

Mr. POLIQUIN. That is not the point, sir. That is not my point.

Secretary LEW. That is precisely the point.

Mr. POLIQUIN. Why in the world wouldn't you just—

Secretary LEW. We have done—

Mr. POLIQUIN. I am asking the question, sir. Why wouldn't you continue to withhold those payments until they stopped sponsoring terrorism? Why wouldn't you do that?

Secretary LEW. Congressman, I think you are mixing a bunch of things up. We are taking action. We have taken dozens of actions to designate entities that support terrorism. We are continuing to take our sanctions responsibilities very seriously to stop Iranian activity supporting terrorism.

Mr. POLIQUIN. Let's move on. Let's move on. You are not going to answer the question, Mr. Lew.

Mr. LEW. I am answering the question.

Mr. POLIQUIN. You are really good about not answering the question.

Secretary LEW. If you would give me the time, I am happy to.

Mr. POLIQUIN. Last year your Administration, or the Administration of which you are a part, floated a horrible idea, which was to tax college savings plans. Do you agree that was a very bad idea?

Secretary LEW. Congressman, that was withdrawn before it was even dry ink.

Mr. POLIQUIN. I know it was. And the reason it was withdrawn, Mr. Lew, is because there were so many of us that made such a stink that it is a bad idea to tax college savings plans to make it more difficult for kids in Maine.

Secretary LEW. We have done an awful lot to expand opportunity for college education in this country.

Mr. POLIQUIN. Okay, let's move on. So you walked it back, your Administration walked it back.

Secretary LEW. And I am very proud of our record, and I would love to talk about it.

Mr. POLIQUIN. And I thank you very much, Mr. Lew, for agreeing with everybody that was a horrible idea.

Now, here is my next question to you.

Secretary LEW. I hope you will agree that expanding Pell grants and student loans has been a good thing.

Mr. POLIQUIN. Here is my next question to you. Here is my next question, Mr. Lew.

There is about—I may not have this number exactly right—there is roughly 24 trillion of private pension savings out there, retirement savings, folks that are trying to build up nest eggs to augment their Social Security payments when they retire.

Do you think it is a good idea to tax retirement savings, like your Administration thought it was a good idea to tax college savings plans? Do you think it is a good idea to tax—

Secretary LEW. I am not sure I understand your question.

Mr. POLIQUIN. Do you think it is a good idea to tax retirement savings?

Secretary LEW. We have promoted retirement savings through—

Mr. POLIQUIN. Do you think it is a good idea—

Secretary LEW. What proposal are you asking me to comment on?

Mr. POLIQUIN. Because your Administration thought it was a great idea to tax college savings plans until you folks walked it back. Do you think it is a good idea—

Secretary LEW. If it is your proposal, I am happy to look at it. We haven't made that proposal.

Mr. POLIQUIN. It is not a proposal. I do not advocate for that. So you don't either.

Secretary LEW. I thought you were proposing it.

Mr. POLIQUIN. No, of course I am not. You know better than that, Mr. Lew.

Secretary LEW. I would tell you I don't think it is a good idea.

Mr. POLIQUIN. Great. Then we agree on something. You think it is a bad idea—you think it is a bad idea to tax retirement savings.

Secretary LEW. We have IRAs. We have 401(k)'s. We have all kinds of tax-protected savings for retirement.

Mr. POLIQUIN. Then do I get your commitment and will you speak to the American people right now that if the Administration sends out a proposal to tax retirement plans, you will stand up against it, sir?

Secretary LEW. I think I can safely say that in the next 4 months we are not going to be sending a new proposal.

Mr. POLIQUIN. Will you stand up against it if that idea is floated?

Secretary LEW. Congressman, we are in the last 4 months of this Administration, so I think—if this was 2 years ago, it would be one thing.

Mr. POLIQUIN. Okay. I am assuming, since you think it is a bad idea—I am assuming, since you think it is a bad idea—we are on the same page, thank you, Mr. Lew—you will stand up against any attempt to tax retirement savings. That is what I heard? Thank you.

Secretary LEW. Congressman, don't put words in my mouth. I am happy to answer a detailed question.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Fitzpatrick, the chairman of our Terrorism Financing Task Force

Mr. FITZPATRICK. Thank you, Mr. Chairman.

Mr. Secretary, proposed staff reallocations at the Treasury's Office of Terrorism and Financial Intelligence, TFI, have raised some concerns about how they might affect the execution of TFI's various missions, but also raise questions about compliance with appropriations language, civil service rules, and constraints on the gathering and use of financial intelligence data.

Further, the amount of information on the proposed moves supplied to Congress has been minimal, and it appears that TFI is proceeding with them at full speed, that despite bipartisan staff admonitions to slow the process down until there is Congressional buy-in, for fear of creating disruption in this critical part of our country's effort to stop the financing of terrorism and other financial crimes.

The fact that the plans are intended to be complete before a new President, a new secretary or deputy secretary takes office, raises the possibility that they may not agree with the realignment, creating more disruption as further moves or reversal might have to occur.

So with that in mind, Mr. Secretary, I have a couple of questions. First is what is the purpose and what are the specifics of the proposal, if you can share them with us, please?

Secretary LEW. Congressman, TFI is an extraordinary organization. I couldn't be more proud of the work that they do and the effectiveness they have. It is a new organization. It was pulled together, cobbled together from a number of different subagencies after 9/11.

Mr. FITZPATRICK. Can you tell us about the proposal specifically?

Secretary LEW. And one of the things that good management requires is that you, particularly with a new organization, try and make sure that you get it right.

I think the current acting under secretary, Adam Szubin, who grew up as a career official in TFI—

Mr. FITZPATRICK. What is the proposal, Mr. Secretary?

Secretary LEW. I am happy to get back to you on the details of the proposal. Frankly, I have deferred considerable latitude to the acting under secretary because he is truly expert in all of the detailed work that they do.

Mr. FITZPATRICK. You may not have the answer to the question, but if you are agreeing to please get back to us.

Secretary LEW. No, but what I can answer—

Mr. FITZPATRICK. Staff has repeatedly asked for the information and it has not received any information about it.

Secretary LEW. We have scheduled a briefing on the Senate side. We are happy to schedule a similar conversation on the House side.

The challenge here is to ask, how do you take an organization that used to be separate organizations and make sure that it is as healthy as possible to do the very important work it does? And that

is what the acting under secretary has been looking at. No final decisions have been made. It is still a work in progress.

Mr. FITZPATRICK. On the work in progress, knowing where it is going, because my concern is—and you just in response to Mr. Poliquin's question said, sir, this is the end of the Administration, don't get us on record. If you are moving forward—

Secretary LEW. He was asking me about a new tax proposal.

Mr. FITZPATRICK. If you are moving forward with the proposal to change the alignment, you need to come to us with some specifics. So I would ask, with the specifics that you do know, what impact would it have on the Treasury's ability to, say, enforce the Bank Secrecy Act?

Secretary LEW. We obviously take all of the responsibilities, including the Bank Secrecy Act, at the highest level of seriousness. There is no aspect of TFI's work that isn't important. And this is about—

Mr. FITZPATRICK. Do you have any idea the impact of these proposed moves on the Bank Secrecy Act and the enforcement by Treasury?

Secretary LEW. The objective is to make sure that TFI as an institution operates more effectively and more efficiently, not diminishing any of the activities.

Mr. FITZPATRICK. You are speaking to all these questions at the 30,000-foot level. You don't have any specifics?

Secretary LEW. I didn't come here today with the plan in front of me. We will follow up at the staff level.

Mr. FITZPATRICK. Okay. I appreciate that.

Mr. Secretary, are there any declared whistleblowers at the agency?

Secretary LEW. Not that I am aware of. I am looking back to see. Yes, my staff is not aware.

Mr. FITZPATRICK. Not that you are aware of.

Have any staff at TFI been ordered not to talk to Congress about this proposal that I spoke about in my first question?

Secretary LEW. I know that there are some things that are in the clearance process, and we have to go through the clearance process internally within the Administration. But it is only a normal process, it is not anything specific about this.

Mr. FITZPATRICK. Why can't TFI redirect a portion of its anticipated 17 percent growth in FTE in the President's fiscal year 2017 budget or what ends up appropriated in a continuing resolution?

Secretary LEW. If I could ask, if you could submit a question, I am happy to take it. That is at a level of detail that I would have to look at the question in more detail.

Mr. FITZPATRICK. Mr. Secretary, I appreciate your willingness to try to answer the questions. You are not able to answer any of the questions here today. I would just—

Secretary LEW. Congressman, I pay attention to a lot of details, but these are pretty small details, and I don't understand the question.

Mr. FITZPATRICK. Sure. But any major realignment, first of all, needs to be included so that we understand in the appropriations process what our respective—

Secretary LEW. No, I agree.

Mr. FITZPATRICK. We will get you the question.

Secretary LEW. Yes, I am happy to answer the question.

Mr. FITZPATRICK. How long will it take you to answer these types of questions?

Secretary LEW. If you give me the question today, we will get back as soon as we can. I would like to understand the question and be able to give you a complete answer.

Mr. FITZPATRICK. Thank you, Mr. Secretary.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Colorado, Mr. Perlmutter.

Mr. PERLMUTTER. Mr. Secretary, good to see you. Thank you for your service. Thanks for coming in and answering these questions even when my friends are kind of pounding away. I appreciate the way you handle it, the seriousness of this, but also your willingness to have a little bit of give and take with my friends.

So I am going to just talk about a couple of things, first to thank you, thank the President. When President Obama took office, my district was at about 10 percent unemployment. We are on average about 3 percent today, and that is even—so the suburbs of Denver—and that is even with oil and gas not doing very well in my State, which would put us at about 2 percent unemployment.

But strong economy. Foreclosures, which had been off the charts at the beginning of the Obama Administration, now very strong housing market, almost too strong. Hopefully supply starts catching up with demand. And lots of jobs. Strong economy.

I just want to thank you for your part in doing that, because it is been a long, long road. So thanks to you. Thanks to this Administration.

The other thing I want to talk about and say thanks, but we certainly aren't there, and since the chairman is here, he knows this subject, it is marijuana and banking. And he knows it because I always bring it up, because we have to confront this and deal with it at some point. At least 25 States have some level of marijuana legalization, some kind of a regulatory structure in place, either for medical marijuana or recreational marijuana. If you add the States that have cannabis oil to deal with seizures, that is probably another eight States, and there are several that have it on their ballots this year.

And the Federal law, particularly in the banking sector, and the State laws, kind of run smack dab into each other. And I appreciate the assistance that the Administration and Treasury have provided to give banks some potential path to allow legitimate businesses to be able to have banking services. So thank you for that.

Now, my question is on this proposed 385 rule on debt equity kinds of transactions between subsidiaries or the parent and a subsidiary and money going offshore. I know that you all are trying to deal with inversions, and I appreciate that. But I guess I want to talk to you about it. I want you to tell me what you think the 385 is intended to do.

And I would just ask you all to be looking at those transactions that sort of have been in the hopper, and then this new rule comes down and it changes the economics of the deal in a tremendous

way. And I would ask you to consider either grandfathering in those deals that are in—haven't yet closed or may be closing, and the effects on those particular deals.

So I turn it over to you, sir.

Secretary LEW. Congressman, the principal objective of the rule is to try to shut down inversions and to shut down the use of kind of blatant tax-avoidance devices.

There were a number of issues raised in the preamble to the regulation, the draft regulation, saying we know that we took a kind of simple approach, that is going to raise concerns, we would like to get comment on each of the issues that might not be central to the core purpose.

Not surprisingly, we got a lot of comments. The comments kind of circle around a half a dozen issues. We have been working on each of those issues to try to come up with policy solutions that address what might be peripheral or unintended impacts, protecting the core objective of the rule.

We are making very good progress. I think that the business community feels that we have listened to the concerns raised. That is certainly what I am hearing. We have listened to the members of the tax-writing committees of Congress and many other Members of Congress, and we are working to try and finalize the rule.

Critics of the rule quickly asked us to add enough time to the comment period so that it would be impossible to do a final rule. And we did not want to do that. We want to do a good rule. We will only do a good rule. So if we don't finish with a good rule, we won't do it. But I think we have time to do a good rule.

Mr. PERLMUTTER. And I think you do too, and I appreciate the fact that you have been taking comments from folks. I guess I want you to hear again particularly those instances where there is this lookback of 3 years or 36 months, there is the potential for a deal that was—and these are big and complicated deals—that you take into consideration the fact that they were underway as this regulation came into play. So please look towards some grandfathering on this.

Secretary LEW. And thanks for your comments at the beginning of your remarks.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Indiana, Mr. Stutzman.

Mr. STUTZMAN. Thank you, Mr. Chairman.

And thank you, Mr. Lew. It is good to see you again, and I appreciate your time here.

I would like to talk about the situation at Wells Fargo Bank. I was looking at an article that you have a couple of quotes, and I would like to read them. It says that after the Senate hearing the other day, that Senator Robert Menendez of New Jersey had said they will hold a hearing on the bank's aggressive sales tactics next week.

"The magnitude of this situation warrants thorough and comprehensive review," the committee members said in a letter on Monday. And now, Treasury Secretary Jack Lew is adding his voice to the chorus of criticism.

“The pattern of behavior that we have seen here is something that needs to stop. It is not acceptable to do things that are designed to increase either an individual or firm’s bottom line by deceiving customers or passing on charges that are either invisible or they don’t know about.

“This is a wake-up call,” he continued. “It should remind all of us, and firms, that culture and competition make a difference. How you reward people, how you motivate people, what values you hold people to matter.”

You said that, correct?

Secretary LEW. I think a couple words were misquoted there, but yes.

Mr. STUTZMAN. Well, looking at the timeline—and I will talk about the CFPB. I don’t think the CFPB is serving the American people. This is case number one, proof number one. You look at the timeline, that we know that wrongful termination lawsuits were filed against Wells Fargo by former employees alleging fraudulent accounts back in 2009. Wells Fargo started seeing a CFPB presence in the Wells Fargo offices in 2011, early 2012. Is that correct?

Secretary LEW. Congressman, I can’t comment on a specific regulatory matter. I don’t have visibility into all of the details, into any of the internal details of regulatory actions.

Mr. STUTZMAN. Okay. Then, in mid-2013, CFPB apparently first hears of the problems at Wells Fargo through whistleblower tips.

The point that I am trying to make to you is CFPB is not doing its job.

Secretary LEW. I don’t agree with that, Congressman.

Mr. STUTZMAN. When did you know about the situation at Wells Fargo?

Secretary LEW. Congressman, I was not aware of the situation in the depth, the scope of it, until the final action. Obviously, there had been some news coverage, but the full magnitude of it was a matter that regulators were looking at. I think but for the CFPB, the penalties would not have been in place.

Mr. STUTZMAN. That is true, but the greater penalty to Wells Fargo is going to come from their customers. I am a Wells Fargo customer, and I am mad. I am upset about it. And I am mad at them, but I am also mad at the CFPB, I am mad at the government, because 5,300 people were fired. This is not just a small scam.

Secretary LEW. Congressman, if you are proposing increasing CFPB resources so they can have more people watching, I would be happy to work with you.

Mr. STUTZMAN. I knew you would say that, because that is always the answer from a failed agency, is give us more funding, give us more so we can go in and find this.

They were in Wells Fargo as early as 2011, 2012, and approximately 939 employees were fired for improper sales practices in 2011. Another 1,000 in 2012. Another 1,250 in 2013. And then CFPB, who has been there for almost 2 years, first hears about it through whistleblower tips. What were they doing?

Secretary LEW. Congressman, I really can’t comment on what the regulatory actions—I just don’t—they properly doing that independently.

What I can tell you is for a brand new organization, the CFPB has done an enormous amount of good work to make sure that the American consumer, when they get a mortgage, can understand what they are getting, to make sure that banks cannot put in place the kinds of provisions that led to the subprime crisis in 2008. And they have a cop on the beat roll as well, and I think it is a good thing they were there to levy a penalty against this behavior.

Mr. STUTZMAN. I don't see how it could take this long—5,300 people were talking somewhere. Somebody had to know something. And I don't know how you didn't know about it. When did you first hear about it?

Secretary LEW. Congressman, I don't recall when I first heard about it, but I just told you the scope of it was obviously quite dramatic in the final regulatory action.

Mr. STUTZMAN. Well, I tell you, the American people don't trust Washington, and now this has happened. This was supposed to prevent big situations like this happening.

Secretary LEW. Let's agree on what we can agree on. We should have tough regulators who are watching to see that things that hurt consumers get stopped and don't happen.

Mr. STUTZMAN. Then we should fire—

Secretary LEW. Let's work together on that.

Mr. STUTZMAN. Let's fire a bunch of CFPB regulators—

Secretary LEW. I think you are going in a place that I wouldn't go. That is not fair.

Mr. STUTZMAN. We are firing them at Wells Fargo.

Secretary LEW. We can continue this conversation.

Mr. STUTZMAN. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Utah, Mrs. Love.

Mrs. LOVE. Thank you.

Secretary Lew, thank you for being here. We are getting close to the final moments and you get to head out.

But I ran across an analysis that was done by the Corporation for Enterprise Development and the Institute for Policy Studies, and the analysis stated that it would take 228 years for Black families to amass wealth of White families in the United States. Is that something that the Administration is concerned about?

Secretary LEW. Congresswoman, I am not familiar with that analysis, but we are very, very concerned about the differences in asset accumulation and income-earning capability.

Mrs. LOVE. It was really interesting because in your opening statement it almost sounded like you thought that we were doing okay and that everything was—

Secretary LEW. We are doing a lot better, but we have consistently said that the benefits of growth are not being experienced as broadly as they should be and the difference in terms of the impact of the housing crisis on the only asset that a lot of African American families had, their home, was disproportionate. So there is still a lot of work to do.

Mrs. LOVE. It also states that it is going in a different direction. When we look at all of the industries, we just talked about the CFPB, we talked about some of these other agencies, that has made it a lot more difficult for Black families to get ahead.

What we are concerned about, and what I see often, is that most—a lot of the time—the majority of the time, these are agencies that actually hurt the people that they vowed to protect. And I was wondering if you were looking into some of these policies and if you could see the same things that aren't just my opinions, but opinions of people on both sides.

Secretary LEW. We have done quite a number of things to look at financial inclusion, access to the financial system, access to credit, to actively promote more inclusive practices, both in the private sector and in terms of things that we can do.

I will give you an example. When we have summer jobs, we are promoting that summer job programs are linked to opening a bank account.

Mrs. LOVE. Are you actually looking at the current policies that actually are hurting American families, especially the poorest among us, and seeing if there is any way that we can correct some of those policies? That is what I am asking. I am not asking you to do more. I am actually asking if you are seeing any areas where we can undo some of the damage that has been done.

Secretary LEW. I don't agree necessarily with what the source of the damage is, but I am certainly agreeing with you that the result is unacceptable.

Mrs. LOVE. I know I have very little time. I just wanted to get your opinion on that.

Secretary LEW. It is an interesting subject I would love to spend more time on. It is one of the central topics we have to make progress on as a country.

Mrs. LOVE. In the next few days my colleagues and I on the Subcommittee for Monetary Policy and Trade are scheduled to have a hearing to examine the implications of the Financial Stability Board for U.S. growth and competitiveness. Since you are here today, I wanted to take an opportunity to ask you just a few questions about the FSB.

As you are aware, many of us remain concerned about the extent to which U.S. regulators defer to international bodies like the FSB when it comes to promulgation of regulations that impact the United States institutions and the United States economy.

So another international organization similar to the FSB is the Basel Committee on Bank Supervision. The group is currently considering changes to the regulatory framework known as Basel III. So, as reported last month, European members of the Basel Committee are apparently pushing back against the proposed changes to how Basel III framework assesses credit, operational, market risks, with some European members reportedly threatening to reject the proposal.

It seems that the European regulators are willing to defend their rules, their institutions, in such organizations. Why are the United States regulators by contrast so willing to defer to the agenda of the FSB?

Secretary LEW. I don't think that is an accurate description of how U.S. regulators participate. We have used our involvement in the FSB, in the Basel Committee, and all of the international bodies to drive an agenda of increasing the quality of regulation and making it closer to the United States.

Mrs. LOVE. Okay. So can you give me a single example in which you or your Treasury colleagues have objected or resisted an FSB initiative?

Secretary LEW. The FSB only makes decisions by consensus, so it doesn't get to a decision if it is not a consensus. We drive that process with our views.

Mrs. LOVE. So you have never objected to any—

Secretary LEW. No, no, I didn't say—

Mrs. LOVE. Can you give me some sort of example?

Secretary LEW. I have 10 seconds left. We are happy to get back to you in writing.

Mrs. LOVE. Okay. I yield back.

Chairman HENSARLING. The gentlelady yields back.

There are no other Members in the queue, so I would like to thank the Secretary for his testimony today.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place his responses in the record.

We would ask, Mr. Secretary, that you respond as promptly as you are able.

Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing stands adjourned.

[Whereupon, at 12:54 p.m., the hearing was adjourned.]

A P P E N D I X

September 22, 2016

EMBARGOED FOR DELIVERY

**The Honorable Jacob J. Lew
U.S. Department of the Treasury
Hearing on the Financial Stability Oversight Council Annual Report to Congress
House Committee on Financial Services
September 22, 2016**

Chairman Hensarling, Ranking Member Waters, and members of the Committee, thank you for the opportunity to testify today regarding the 2016 annual report of the Financial Stability Oversight Council.¹

Congress created the Council under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to bring together the entire financial regulatory community for the first time to identify and respond to emerging threats to U.S. financial stability. The Council convenes regularly to monitor market developments and to take action when needed to protect the American people from potential risks to the financial system. Our approach has been data-driven and deliberative, and we consistently provide the public with considerable information regarding the Council's actions and views.

The Council recently released its sixth annual report. The annual report represents the Council's consensus on key risk areas and recommendations to address those concerns. Each voting member of the Council signed a statement supporting the report's recommendations. This year's report highlighted many of the topics the Council has discussed over the last year, including cybersecurity, risks associated with asset management products and activities, reforms to wholesale funding markets, and global economic and financial developments. Those discussions

¹ The Council's 2016 annual report is publicly available at <https://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2016-Annual-Report.aspx>.

laid the groundwork for many of the recommendations in the annual report, and these issues will continue to be areas of focus in the coming year.

The Council's annual report is an important vehicle to highlight publicly potential threats to financial stability, and it serves as a key mechanism for public accountability and transparency regarding the Council's work. Each report is the product of extensive collaboration and analysis conducted by the Council and its member agencies that documents the Council's views of current risks and emerging threats to financial stability, along with recommendations for specific actions to mitigate those risks. The findings and recommendations set down a marker for action, providing transparency regarding the Council's upcoming priorities and a roadmap for the year ahead. Importantly, the statement in the annual report that is signed by each of the Council's voting members affirms that all of the issues and recommendations in the report should be fully addressed.

Areas of Focus of the Council's 2016 Annual Report

The Council's 2016 annual report focuses on 12 themes that warrant continued attention and, in many cases, further action from the Council members and member agencies.

- *Cybersecurity:* Government agencies and the private sector should continue to work to improve and enhance information sharing, baseline protections such as security controls and network monitoring, and response and recovery planning.

- *Risks Associated with Asset Management Products and Activities:* The asset management industry's increasing significance to financial markets and to the broader economy underscores the Council's ongoing consideration of potential risks to U.S. financial stability from products and activities in this sector, including further analysis of the activities of hedge funds.
- *Capital, Liquidity, and Resolution:* Regulators should continue working to ensure that there is enough capital and liquidity at financial institutions to reduce systemic risk, including finalizing rules setting standards for the minimum levels of total loss-absorbing capacity and long-term debt maintained by certain large banking organizations operating in the United States.
- *Central Counterparties (CCPs):* Council member agencies should continue to evaluate whether existing rules and standards for CCPs and their clearing members are sufficiently robust to mitigate potential threats to financial stability, and also should continue working with international standard-setting bodies to implement more granular guidance with respect to international risk management standards in order to enhance the safety and soundness of CCPs.
- *Reforms of Wholesale Funding Markets:* Counterparty risk exposure has been significantly reduced in the tri-party repurchase agreement (repo) market, though the potential for fire sales of collateral by creditors of a defaulted broker-dealer remains an important risk. Better data are needed to assist the understanding policymakers have of

how the aggregate repo market operates. Furthermore, regulators should continue to monitor and evaluate the effectiveness of structural reforms of money market mutual funds.

- *Reforms Relating to Reference Rates:* Regulators and market participants should continue their efforts to develop alternative benchmark interest rates and implementation plans to achieve a smooth transition to these new rates.
- *Data Quality, Collection, and Sharing:* While Council members have made progress in filling gaps in the scope, quality, and accessibility of data available to regulators, regulators and market participants should continue to work together to improve the scope, quality, and accessibility of financial data.
- *Housing Finance Reform:* While regulators and supervisors have taken great strides to work within the constraints of conservatorship to promote greater investment of private capital and improve operational efficiencies with lower costs, federal and state regulators are approaching the limits of their ability to enact wholesale reforms that are likely to foster a vibrant, resilient housing finance system. Housing finance reform legislation is needed to create a more sustainable system that enhances financial stability.
- *Risk Management in an Environment of Low Interest Rates and Rising Asset Price Volatility:* Depressed energy and metals commodities prices, large swings in equity valuations, and upward movement in high-yield debt spreads underscore the need for

supervisors, regulators, and managers to remain vigilant in ensuring that firms and funds maintain robust risk management standards.

- *Changes in Financial Market Structure and Implications for Financial Stability:* The growing importance in certain markets of proprietary trading firms and automated trading systems may introduce new vulnerabilities, including operational risks associated with the very high speed and volume of trading activity. Increased coordination among regulators is needed to evaluate and address these risks.
- *Financial Innovation and Migration of Activities:* Financial regulators will need to continue to work hard to monitor new and rapidly growing financial products and business practices, even if those products and practices are relatively nascent and may not constitute a current risk to financial stability.
- *Global Economic and Financial Developments:* Market participants and regulators should be vigilant in identifying and responding to potential foreign shocks that could disrupt financial stability in the United States.

The annual report goes into detail on each of these important issues. These 12 areas of focus also demonstrate the need for the Council and its member agencies to persistently monitor these risks and to foster discussion and analysis around them.

As the forum designed to bring the financial regulatory community together to collaboratively identify and respond to potential threats to financial stability, the Council has done what Congress established it to do, including asking the tough questions that help us make our financial system safer. Our mandate is to shine a light on emerging threats before they can evolve into another financial crisis.

As part of this responsibility, the Council has worked closely with a broad array of stakeholders, and has adapted its policies and procedures in response to good ideas stakeholders have raised. We have improved our transparency policy, strengthened our internal governance, provided the public with additional information on the nonbank financial company designations process, and solicited public comment on potential risks to financial stability from asset management products and activities.

The Council remains a critical forum for identifying potential threats as the financial industry and regulatory environment continue to evolve. An example of this work is our ongoing evaluation of potential risks to financial stability from asset management products and activities. As these products and activities represent an increasingly important part of the financial sector, it is incumbent on the Council to evaluate any potential financial stability implications they present. To that end, in April of this year, we published a number of findings regarding potential liquidity and redemption risks and leverage risks, based on careful analysis that included engagement with key stakeholders. Our work in this area is ongoing, and we plan to provide timely public updates as our analysis continues. Separately, in the months ahead, the Council will monitor market responses to the implementation of the Securities and Exchange

Commission's money market mutual fund reforms that go into effect next month. Risks to financial stability arising from the money market mutual fund industry were an important area of focus for the Council in the aftermath of the financial crisis.

Finally, the Council will continue to monitor for potential threats posed by nonbank financial companies. The Council's nonbank financial company designations authority has been a critical tool to address a key weakness exposed by the financial crisis: that the failure of large, complex, and interconnected financial companies could threaten financial stability. The Council's process for considering nonbank financial companies for potential designation includes extensive engagement with companies and their primary regulators, and the reasons for designations are explained to the companies and to the public. The Council also annually reevaluates each of its previous nonbank financial company designations every year, and we take these reviews seriously. This June, the Council voted to rescind its designation of GE Capital because the company had implemented strategic changes that significantly reduced the potential for the company's material financial distress to threaten U.S. financial stability. The Council's action shows that the designation process works as intended— if a company changes in a way that addresses the risks it could pose to financial stability, there is a clear process for the Council to rescind a designation.

As we recently marked the eight-year anniversary of the collapse of Lehman Brothers, it has become clear that the reforms adopted in the Dodd-Frank Act, including the creation of the Council, have made the financial system safer, more resilient, and supportive of long-term economic growth. We should not forget how damaging weak oversight of the financial system

can be to our country and our economy. The Council has proven itself as an important forum for the financial regulatory community to come together, identify risks, and work collaboratively to respond to emerging threats to financial stability. It would be a mistake to roll back the clock on these protections or to constrain the ability of the Council or its member agencies to address new risks as they arise, including the Council's nonbank financial company designations authority.

I look forward to questions Members of the Committee may have on the Council's annual report.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 12, 2018

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Re: Responses to Questions for the Record Following September 22, 2016 Hearing

Dear Chairman Hensarling:

Thank you for your inquiry regarding Questions for the Record sent to the Department of Treasury following the "The Annual Report of the Financial Stability Oversight Council" hearing held on September 22, 2016. The answers to those questions were incomplete at the conclusion of the previous administration; thus, no answers will be submitted.

Please contact the Office of Legislative Affairs should you have any further questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Drew Maloney", written over a horizontal line.

Drew Maloney
Assistant Secretary for Legislative Affairs

Statement
Property Casualty Insurers Association of America (PCI)
For the House Financial Services Committee Hearing on
"The Annual Report of the Financial Stability Oversight Council"
September 22, 2016

The Property Casualty Insurers Association of America (PCI) is pleased to offer testimony on accountability of the Financial Stability Oversight Council (FSOC) with respect to nonbanks designated as systemically important. PCI is composed of roughly 1,000 member companies, representing the broadest cross section of insurers of any national trade association. PCI members write more than \$200 billion in annual premium, 35 percent of the nation's property casualty insurance. Member companies write 42 percent of the U.S. automobile insurance market, 27 percent of the homeowners market, 32 percent of the commercial property and liability market and 34 percent of the private workers compensation market.

PCI appreciates the desire of Congress to identify and reduce systemic risk in financial institutions in the wake of the financial crisis of 2008. In passing the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") the Congress sought to ensure the stability of America's financial markets and reduce the exposure of taxpayers to costly bailouts. Unfortunately, however, the FSOC is not following the intent of Congress, which was to designate only those financial firms that pose true systemic risk. PCI strongly recommends that the Congress exercise robust and effective oversight over the FSOC designation process, provide additional legislative direction to ensure that relevant provisions of Dodd-Frank are implemented in a manner consistent with the intent of Congress, and assure that the FSOC is properly focused on identifying true systemic risk.

Background

Dodd-Frank instructs the FSOC to "require supervision by the Board of Governors for nonbank financial companies that may pose risks to the financial stability of the United States in the event of their material financial distress or failure or because of their activities pursuant to

section 113.” FSOC was created in the wake of the 2008 financial crisis, which caused the collapse of several large financial institutions and threatened others as well as the near freezing of credit markets in the U.S. and resulted in large government infusions of cash into some financial firms to prevent their failure from further destabilizing the national economy. Congress intended Dodd-Frank to prevent a recurrence of the crisis. More specifically, Congress directed the FSOC to identify firms that pose systemic risk to the economy so that this risk could be managed and eliminated. Unfortunately, however, the FSOC has failed in significant ways to fulfill the purpose Congress set for it.

Flaws in the FSOC Nonbank Designation Process

Inappropriate Pre-Designations with Foreign Governments. In designating three nonbank financial firms that are insurance companies, FSOC has failed in alarming ways to follow the decision-making process outlined in Dodd-Frank. First, there is substantial evidence that, before FSOC considered designations for some companies, members of the FSOC agreed with foreign regulators participating in deliberations of the Financial Stability Board (FSB) that certain of these firms would be designated as Global Systemically Important Financial Institutions (G-SIFIs). For example, the FSB stated during the 2013 GSII designations that “implementation of enhanced supervision [of the GSIs], including group-wide supervision, commences immediately.” Moreover, FSB Chairman Mark Carney indicated in a letter to G-20 ministers and central bank governors the FSB’s expectations that member countries would implement the FSB regulations. Carney stated “Full, consistent and prompt implementation is essential to maintaining an open and resilient global financial system.” A subset of members of the FSOC who participated at the FSB committed the United States to this position before the full FSOC had even considered the question. There is no evidence in Dodd-Frank that Congress intended U.S. systemic risk designations to be pre-determined by *foreign* regulators with the complicity of members of our own FSOC.

No Clear Rationale. The designation decisions handed down by FSOC have failed to clearly state the rationale for the decision based on activities in which the firm engages. Not only does this call the integrity of the designation decision into question, but it leaves all companies in the dark about what activities the FSOC considers systemically risky and thus provides no clear direction to companies on how to reduce systemic risk. It also provides no roadmap for how companies can take action to eliminate activities that pose systemic risk and thus become eligible to have a designation of systemic importance reversed. Thus, FSOC's failure to provide a clear rationale for its decision and an "exit ramp" for companies to address systemic risk issues actually works to thwart one of Dodd-Frank's primary objections – to reduce systemic risk.

Congressionally-Prescribed Risk Factors Disregarded. Dodd-Frank set forth a list of factors the FSOC is to consider when determining whether a nonbank is systemically important. However, FSOC's designation decisions fail to engage in any meaningful analysis of these factors, focusing instead primarily on issues relating to the size of the company and on hypothetical and arguably implausible scenarios under which material financial stress at the company would pose systemic risk to the economy. Section 113 specifically instructed FSOC to consider and analyze ten specific "considerations," one of which is "the degree to which the company is already regulated by 1 or more primary financial regulatory agencies." The FSOC appears to have little understanding of the state-based system of insurance and assumed, without basis, that state insurance regulators would be unable or unwilling to respond effectively to problems in insurance companies. For example, the FSOC worried that financial troubles at a life insurer could lead policyholders to seek to surrender their policies in a disorderly manner, but the FSOC failed to acknowledge that state insurance regulators have the ability to impose stays or take other action to manage any such surrender activity. It was not the intent of Congress that the tools available within the existing regulatory structure to mitigate systemic risk should be disregarded.

FSOC Insurance Experts Disregarded. It is alarming that the FSOC has recently designated two insurance groups as systemically important over the strong and substantive objections of both FSOC's Independent Member Having Insurance Expertise as well as the non-voting State Insurance Commissioner Representative. These designations have therefore been made solely by FSOC members who have little background or expertise in insurance, who have exhibited limited understanding and interest in the state-based insurance regulatory structure, and who have disregarded the opinions of those who do have such expertise. There could be no surer sign that the FSOC designation process is flawed and in need of increased congressional oversight and reform.

GAO Criticisms. The Government Accountability Office (GAO), in a report released on November 20, 2014, identified several of these flaws in FSOCs process. Specifically, the GAO noted that "FSOC's public documents have not always fully disclosed the rationales for its determination decisions and that "the lack of full transparency has resulted in questions about the process and may hinder accountability and public and market confidence in the process." GAO also criticized FSOC for "using only one of two statutory determination standards (a company's financial distress, not its activities)" and noted that "FSOC may not be able to comprehensively ensure that it had identified and designated all companies that may pose a threat to U.S. financial stability." The GAO recommended that "making FSOC's designation process more systematic and transparent could bolster public and market confidence in the process and also help FSOC achieve its intended goals."

Failed Obligation to Consumers and the Economy. By failing to achieve the primary goal assigned to it by Congress, FSOC has left the door open to future financial crises while imposing unwarranted burdens and costs on companies that do not, in fact, pose systemic risk. Not only does this create additional costs for consumers, but it also fails to protect them from the negative economic implications of the next crisis. For this reason, if no other, significant reforms in the FSOC designation process are needed.

FSOC Reforms. To its credit, FSOC recently adopted several new measures designed to address some of these concerns. The new measures relate to: (1) improving engagement with companies being considered for designation; (2) enhancing public transparency; and (3) making the annual review process more meaningful. PCI applauds FSOC for taking these actions, which we view as improvements to the existing process. Nevertheless, they fall far short of fully addressing the shortcomings we, the GAO, and others have identified. Most importantly, they do not bring the FSOC designation process fully into line with that envisioned by Congress and set forth in Dodd-Frank.

Suggestions for Improvement

Transparent, Activities-Based Analysis. FSOC needs to accept the GAO's recommendation and make its systemic risk determinations more systematic and transparent. This includes following the mandate of Section 113 of Dodd-Frank to assess the *activities* in which a company engages – not just its size and hypothetical scenarios of financial distress. It also includes identifying activities that pose systemic risk and publicly announcing them *before* designating a company as systemically important. This will allow companies to reduce systemic risk before it becomes necessary for FSOC to consider designation. This would provide much greater confidence to the general public that true systemic risk is being addressed and rooted out of the economy.

Off-Ramp. Once a company has been designated, a fair process is needed to give the company a reasonable roadmap for eliminating the activities that led to the determination so that the company can be de-designated. There is no process for this now, but this is also essential to achieving the goal of reducing systemic risk.

Deference to Functional Regulators. Although almost all members of FSOC are regulators, no single member has expertise in all sectors of the financial services industry. In keeping with congressional direction in Section 113(a)(2)(H) of Dodd-Frank, FSOC *must* begin to recognize and utilize the expertise of the primary functional regulators and engage in meaningful analysis

of how that regulation can or does work to reduce systemic risk. This is especially true with respect to insurance as the vast majority of FSOC members have no background in that industry or its regulation. This means, in part, being more mindful of the strong views of insurance experts on the FSOC, but even more importantly, it means consulting with state insurance regulators before and during the designation process. The non-insurance expert members of FSOC need to invest significant time and attention to the state-based regulatory system and develop a much more sophisticated understanding of it before considering another insurance company for designation.

Congressional Legislation. While increased Congressional oversight of FSOC is important, Congress needs to consider statutory changes to more tightly direct FSOC's decision-making processes. For example, H.R. 5180, introduced in the last Congress by Rep. Dennis Ross (R-FL) and Rep. John Delaney (D-MD) would make a good start. The bill would: (1) require FSOC to notify a nonbank financial company that it has been identified for SIFI designation; (2) codify FSOC procedures for SIFI designation voting requirements; (3) require FSOC to consider the impact of a SIFI designation on the company and its consumers; (4) mandate that FSOC explain the basis of its designation to the company; (5) allow a company to submit a plan to modify its activities prior to designation; and (6) allow a company to contest a SIFI designation every five years. To this might also be added requirements for FSOC to give greater deference to functional regulators and to report to Congress on any designations, including detailed descriptions of how FSOC fully followed the requirements of Section 113 of Dodd-Frank.

Congressional Intent and Public Policy Basis for Improvements

In considering how to exercise its oversight responsibilities over FSOC as well as what legislation may be needed to address flaws in the current FSOC process, we urge Congress and FSOC to keep in mind the following basic premises. These were part of the foundation on which Dodd-Frank was based and FSOC should be reminded of its obligation to implement Dodd-Frank with these public policy priorities in mind.

Size Alone Does Not Create Systemic Risk. FSOC must not create a new class of “too-big-to-fail” companies, blindly designating companies as systemically important simply because they are large without adequately analyzing other far more significant factors that are indicative of systemic risk. Few, if any, financial companies are systemically important solely because they are large. It is engaging in highly risky activities, coupled with interconnectedness, leverage, concentration and other considerations set forth in Dodd-Frank that pose systemic risk. Unless FSOC fully considers and analyzes all of those factors it cannot gain a holistic view of the true nature of the risks a company does and does not pose.

Failure to Achieve Goal of Reducing Systemic Risk. FSOC must recognize that its goal is not to impose punitive regulation on financial companies, but to reduce systemic risk. If FSOC is true to that goal, it will work with companies to consider approaches to reducing systemic risk both before, during, and after consideration of a company for designation. To do otherwise fails to provide the protection to the economy that Congress envisioned when it passed Dodd-Frank and instead only causes significant market distortions and increased costs for consumers with little significant benefit.

Insurance Is Not Systemically Risky. There was widespread recognition during the legislative process that led up to the passage of Dodd-Frank that traditional insurance activities simply are not systemically risky. Property-casualty insurers, in particular, have low leverage, are not interconnected with other financial firms, do not pose a “run-on-the-bank” threat, are highly competitive with low market concentration, have low failure rates, and have their own effective and self-financed resolution system. When one of Dodd-Frank’s namesakes, former Rep. Barney Frank, testified last summer in a House Financial Services Committee hearing assessing Dodd-Frank, he said that he didn’t believe “asset managers or insurance companies that just sell insurance are systemically important.” (He also said it was never his intention that a nonbank designated by the FSOC should be regulated as a SIFI in perpetuity, and noted that he had sent a letter to FSOC stating that view.)

Conclusion

The time has come for Congress to ensure that FSOC fulfills the responsibilities it was given under Dodd-Frank. The flaws identified in FSOC's decision-making process must be corrected and it must be refocused on the job Congress gave it to do – reducing the threat of systemic risk to the country's economic prosperity.

JEB HENSARLING, TX, CHAIRMAN

United States House of Representatives
 Committee on Financial Services
 2129 Rayburn House Office Building
 Washington, DC 20515

MAXINE WATERS, CA, RANKING MEMBER

July 14, 2016

Dr. Jim Yong Kim
 President
 World Bank Group
 1818 H Street, NW
 Washington, D.C. 20433

Dear Dr. Kim:

We are writing to express our alarm over the World Bank's cancelled Uganda Transport Sector Development Project. As you know, the Bank is facing serious allegations related to misconduct by a Chinese contractor, including sexual exploitation of minors, repeated harassment of female staff, and deficient safety measures that may have resulted in five fatalities. The Bank has admitted that its supervision of the project was inadequate, particularly with respect to protecting Ugandan girls.

In addition to negligent supervision, the Bank's slow response to local communities' accusations is troubling. According to the Bank's own timeline, Ugandans had to wait six months from the time they first voiced their complaints until the Bank's Country Director wrote to public authorities requesting follow-up by law enforcement. Ten months elapsed before the Bank suspended the project, and delays in the Management Response meant that the Bank's Inspection Panel did not visit Uganda until one year following the initial allegations. As the Panel continues to investigate this case, we urge you and Bank management to cooperate fully while respecting the Panel's independence. We also ask that any findings of negligence and wrongdoing lead to appropriate disciplinary action.

The failure of this project to protect, let alone benefit, Ugandans should inform supervision in all sectors and regions going forward. We believe that the Bank must strengthen its role in supervising and monitoring its projects to ensure that the poor are protected in the Bank's work. Any actions by the Bank that would weaken its oversight could undermine support for the institution.

Additionally, the Bank has long faced criticism, including from its own staff, for a culture that too often places the volume of lending above concerns for the effectiveness of that lending. Last October, the Subcommittee on Monetary Policy and Trade held a hearing on the multilateral development banks that explored this very problem, and a report by the Bank's Independent Evaluation Group notes how the "pressure to lend" has characterized the Bank's culture for decades, often at the expense of development outcomes.¹ It is clear

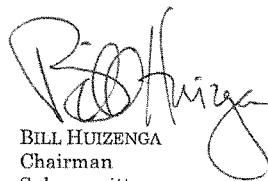
¹ *Learning and Results in World Bank Operations: Toward a New Learning Strategy*, Independent Evaluation Group, 2015.

Dr. Jim Yong Kim
July 14, 2016
Page 2

that such a culture can distract from the proper preparation and administration of projects, including monitoring and supervision, thus putting development at risk.

In the case of Uganda, the Bank clearly should have made supervision a higher priority. We hope that future beneficiaries, be they in Africa or elsewhere, will encounter more capable and responsive partners at the Bank.

Sincerely,



BILL HUIZENGA
Chairman
Subcommittee on
Monetary Policy and Trade



GWEN MOORE
Ranking Member
Subcommittee on
Monetary Policy and Trade

cc: The Honorable Jacob Lew, Secretary of the Treasury



WORLD BANK GROUP

Jim Yong Kim
President

August 2, 2016

The Honorable Bill Huizenga
Chairman
The Honorable Gwen Moore
Ranking Member
Subcommittee on Monetary Policy and Trade
United States House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Huizenga and Ranking Member Moore,

Thank you for your letter of July 14, 2016 expressing your concerns about the cancelled Uganda Transport Sector Development Project. I share your views about the gravity of the situation.

As you know, in my statement of December 2015, I publicly acknowledged the multiple failures of this project—on the part of the World Bank, the government of Uganda, and the government's contractor—as well as our obligation to properly prepare and supervise our projects so the poor and vulnerable are protected. That did not happen in this case.

That is why I ordered that the project be cancelled and the road components of two other projects in Uganda be suspended. It is also why I committed to doing everything in our power to ensure support for the affected communities, prevent retaliation against the complainants, and assist the Government's efforts to address deeply rooted social problems. Most importantly, I will ensure that we, as an institution, learn the lessons from this case so that we better prepare and supervise our projects. I would like to take this opportunity to outline some of the specific actions we have taken.

First, we worked closely with relevant government agencies on a series of actions to support the survivors of sexual abuse in the affected communities. In Kamwenge and Kabarole districts, our partners on the ground have offered affected women psychosocial support, legal redress, medical care for girls, mothers and babies, financial support, and reintegration into school or vocational training. Many have taken up this assistance. The World Bank has engaged BRAC Uganda, a well-regarded NGO that works in the affected communities, to work with the survivors of sexual abuse and engage with the broader community to protect girls from threats of sexual violence.

Second, we strengthened our team on the ground in Uganda—including by adding a social expert with extensive experience in addressing sexual and gender-based violence issues.

The Hon. Bill Huizenga
The Hon. Gwen Moore

-2-

Third, through our continuing engagement with district leaders, community awareness of the threats facing children has increased significantly. District leaders are using public gatherings and free air time on radio to raise these issues openly and to encourage community members to report child abuse to the police. Road workers have taken part in group discussions, facilitated with police, on child protection and HIV/AIDS prevention.

Fourth, on the legal action side, we have urged that the serious allegations of sexual misconduct be investigated and prosecuted. The Ugandan authorities have informed us that, to date, three cases have been successfully prosecuted and in at least one case, the perpetrator has been sentenced to four years in jail. Further cases are under active investigation.

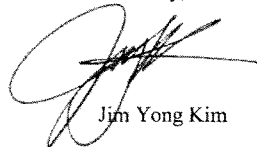
Fifth, we are working with the government to find ways to tackle sexual and gender-based violence at the national level. The government and the World Bank Group agreed to include in the new Uganda Country Partnership Framework, our multi-year joint strategy, support for a nationwide program on sexual violence, especially to reduce the risks associated with the influx of workers into local communities for road and other projects.

Your letter quite rightly seeks to understand what we have been doing to address the institutional failings highlighted by this project. I have been very clear that we must identify and address the weaknesses in our systems and this is a process that is underway. We must learn from failure. In the meantime, we are developing new guidance for our staff, especially those working on infrastructure projects requiring outside workers. We have also shifted more resources to the front-line to buttress supervision efforts.

I hope this summary helps to address your concerns. Right now, the Inspection Panel, which has undertaken a thorough investigation, is finalizing its report. Once final, it will be discussed by the Bank's Board along with the World Bank's Management Response. Our next steps will be based on the Panel's findings.

Let me conclude by assuring you that World Bank Group staff are deeply committed to the institution's mission and twin goals of ending extreme poverty by 2030 and boosting shared prosperity. I see this wherever I go in the more than 100 developing countries in which we work. Our commitment to ensuring everyone has the opportunity for a better life is unwavering.

Sincerely,



Jim Yong Kim

cc: The Honorable Jacob Lew, Secretary of the Treasury of the United States
Mr. Matthew T. McGuire, Executive Director for the United States, The World Bank Group

A Fed Insider Warns of the Risk of Low Rates

Among concerns behind Eric Rosengren's call for central bank to act: soaring commercial real-estate market



Boston Fed President Eric Rosengren, pictured at the Jackson Hole economic symposium in 2015, has recently become concerned that easy-money policies may be letting markets get out of hand. PHOTO: DAVID PAUL MORRIS/BLOOMBERG NEWS
By

MICHAEL S. DERBY

Updated Sept. 19, 2016 1:03 a.m. ET

157 COMMENTS

The Federal Reserve official who sent the market into its most volatile week of the summer over fears of more aggressive interest-rate increases couldn't have been a more unlikely candidate for that distinction.

Boston Fed President [Eric Rosengren](#) has a well-established reputation as one of the Fed's leading doves—advocates of easy-money policies aimed at spurring faster economic growth. But more recently he has developed strong concerns that easy money could be letting markets get out of hand the way they did before the financial crisis. And he's publicly urging his colleagues to act before it gets too late.

"It's not costless to get the unemployment rate very low," Mr. Rosengren said in an interview Sept. 9. "The tools we have are quite blunt," so it's better to get ahead of potential problems, he said.

Mr. Rosengren wasn't explicitly calling for the Fed to raise short-term interest rates at its meeting this Tuesday and Wednesday. Officials [are divided over when to move](#), making it likely they'll wait until later this year. Futures markets put low odds on a rate increase this month. But he warns that the Fed needs to consider the effects of very low rates in fueling bubbly asset prices. His main source of concern is commercial real estate—the soaring market for office buildings, warehouses and apartment buildings.

According to the Boston Fed, lending to the sector totaled \$3.6 trillion as of March, with just over half of that provided by banks and the rest from financial firms such as pension funds and life insurers.

The Fed, the BOJ and Markets

- [Fed Stands Pat, But Says Case for Rate Increase Has Strengthened](#)
- [Bank of Japan Charts New Course With Bond-Rate Target](#)
- [What the BOJ Did, in Six Simple Questions](#)
- [Heard on the Street: Doubt a December Hike? Be Careful](#)
- [Yen's Rally Makes BOJ's Job Tougher](#)

Prices have been rising steadily across the country since the end of 2009, the Boston Fed said. Mr. Rosengren worries the gains are being driven in part by the scramble for returns in the low-yield world brought about by the Fed and its overseas counterparts, rather than by the fundamentals of supply and demand.

“Should prevailing economic conditions change in response to a large negative economic shock, commercial real-estate prices could decline relatively quickly, leading to large losses at leveraged firms,” he said in an Aug. 31 speech in Beijing. That, in turn, could trigger a broader economic downturn, he said.

The comments that sent markets tumbling came Sept. 9 in Quincy, Mass, when Mr. Rosengren said “a reasonable case can be made” for raising rates to avoid overheating the economy. Most notably, he made the case for raising rates to head off financial instability despite the fact that this would slow the Fed’s progress toward its goals of fostering job growth and 2% inflation—an unusual statement of the cost-benefit trade-offs.

“A failure to continue on the path of gradual removal of accommodation could shorten, rather than lengthen, the duration of this recovery,” he said.

The comments augmented investors’ concerns about other central banks’ willingness or ability to keep the easy money flowing. The markets reacted violently. The S&P 500, which didn’t move by more than 1% for 43 straight days, has since swung by more than that amount four out of the past six trading days. Yields on the benchmark 10-year Treasury note have risen 0.16 percentage point since Sept. 7.

While a rate increase at the September meeting next week isn’t likely, markets and Fed officials do seem on board with a move higher in the coming months, and Mr. Rosengren might be a consistent voice lashing them toward action. Forecasters at Wrightson ICAP told clients the Boston Fed leader is likely to argue for periodic rate increases—“a shot across the bows of the market” to “reduce the risk that valuations would reach levels that would ultimately prove destabilizing.”

Mr. Rosengren's worries about the risks posed by commercial real estate aren't fully shared by Fed officials. While some acknowledge the sector is getting pretty hot, there's some skepticism it could create problems for the rest of the economy.

"I don't dismiss what Eric is suggesting is something we may have to consider in time," Atlanta Fed President Dennis Lockhart told reporters Sept. 12. But, said Mr. Lockhart, who had a long career in banking before coming to the Fed, "I don't think it's an immediate question."

Mr. Rosengren hasn't said when he'd like to see the Fed raise rates. In the interview, however, he said the Fed has "the luxury...to move in a deliberate and gradual way" and suggested it shouldn't squander the opportunity.

Mr. Rosengren joined the Boston Fed in 1985 and became its president in 2007. Before that, he was executive vice president for the bank's Supervision and Regulation Department, a job that informed his current outlook. Over his career, he has observed multiple chapters in which commercial real-estate problems have caused broader damage, citing episodes in New England and in Japan.

His current warnings appear to be a tacit acknowledgment of the Fed's failure to take sufficient action to arrest the housing-market bubble in the years leading up to the 2008 financial crisis and the worst economic downturn in generations. Much of that crisis was rooted in lending to borrowers with poor credit histories. Many economists said at the time that type of lending was too small to create real risks for the economy as a whole. They were wrong.

The hawkish edge to Mr. Rosengren's recent comments marks a notable shift from when he was one of the strongest supporters of aggressive stimulus.

"I don't worry much about labels," he said in the interview.



University of Pittsburgh

Chancellor of the University

107 Cathedral of Learning
4200 Fifth Avenue
Pittsburgh, PA 15260
412-624-4200
Fax: 412-624-7599

Patrick Gallagher
Chancellor

October 30, 2015

The Honorable Pat Toomey
United States Senate
248 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Toomey:

On behalf of the nearly 35,000 students enrolled at the University of Pittsburgh (Pitt), we sincerely thank you for your leadership in sponsoring S.1802, the Consumer Financial Choice and Capital Markets Protection Act of 2015, which has been referred to the Senate Banking, Housing, and Urban Affairs Committee. Pitt students and faculty, as well as the residents of the city of Pittsburgh, all greatly benefit from our world-class facilities financed primarily with tax-exempt bonds. Passage of S.1802 will enable us to continue cost-efficient funding of modern classrooms and facility upgrades, which foster new job growth and an expanded tax base for our local economy.

Pitt, like most other universities throughout the state, uses tax-exempt debt to finance various capital and public works projects. Money market funds (MMFs) are significant purchasers of tax-exempt obligations. Pitt is concerned that, without the passage of S.1802, MMFs may no longer purchase these debt obligations after October 2016, when the Securities and Exchange Commission (SEC) rule becomes effective. The SEC rule, in its current state, would increase project costs (reduced investor demand equates to higher interest rate costs for the issuer, strong credit ratings aside), and possibly delay the implementation of Pitt's capital plan, including campus preservation projects across our five-campus system.

In addition, Pitt relies on MMFs for short-term investing needs as a safe, liquid, and affordable cash management tool. These critical features enable Pitt to appropriately safeguard its financial assets (where capital preservation is guaranteed vis-à-vis a stable \$1.00 net asset value (NAV)), access operating cash (while not triggering taxable events with gains/losses), and effectively meet payroll and other payment obligations. Moreover, as a state-related university that is subject to stringent federal and state policies and legal restrictions on our investment options, MMFs provide that stable and low risk option. If the SEC's new floating NAV is

The Honorable Pat Toomey
October 30, 2015
Page Two

imposed on MMFs beginning in 2016, Pitt, alongside many of its peer universities and colleges, will experience adverse effects from both debt-issuance and investor perspectives, as detailed herein.

For all of these reasons, we thank you again on your leadership with this issue, and commend you for sponsoring S.1802.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick Gallagher", with a stylized flourish at the end.

Patrick Gallagher

c: Mike Ringler
Art Ramicone

COUNTY OF ALLEGHENY



RICH FITZGERALD
COUNTY EXECUTIVE

December 1, 2015

The Honorable Mike Doyle
U.S. House of Representatives
239 Cannon HOB
Washington, DC 20515

Communication Sent via E-Mail to: Paul.Dalesandro@mail.house.gov

Dear Congressman Doyle:

I am writing you regarding the Consumer Financial Choice and Capital Markets Protection Act of 2015. This Act has been introduced in the United States Senate as Senate Bill 1802. This Act will have a vital impact on investment funds and Allegheny County, and I ask that you please support the bill when it comes to the House.

By way of background, pursuant to the Securities and Exchange Commission's rule Amendments, in October of next year certain categories of money market mutual funds will no longer be permitted to offer a stable \$1 per share value. The financial entities running the money market funds will cease to operate these funds if they cannot maintain a stable new asset value because of the prohibitive cost for administration under the new SEC rules.

This would have a significant impact in Allegheny County. Money market mutual funds buy approximately 70% of the tax-exempt bonds issued by cities, counties, hospitals, colleges and universities. If money market mutual funds are no longer buying these tax-exempt bonds, the cost of the issuances increase with the increased interest rates, and subsequently there will be fewer buyers in the market.

Because of this, various projects funded by the bond issuances will become more expensive for government entities, including Allegheny County. As a result, this could negatively impact the county's ability to fund essential capital infrastructure projects and improvements. If costs increase for tax-exempt debt issuers, it will directly lead to projects being reduced or delayed, which will result in fewer jobs.

The Consumer Financial Choice and Capital Markets Protection Act of 2015 will preserve money market mutual funds for all investors while ensuring continuing safeguards and SEC regulation. This Act enables institutions to continue to implement the management tools they have historically relied on with proven success.

OFFICE OF THE COUNTY EXECUTIVE

101 COURTHOUSE • 436 GRANT STREET • PITTSBURGH, PA 15219 • PHONE (412) 350-6500 • FAX (412) 350-6512
WWW.ALLEGHENYCOUNTY.US • EXECUTIVE@ALLEGHENYCOUNTY.US

I ask that you support this initiative when it is introduced in the United States House of Representatives.
I thank you in advance for your time and consideration of this matter.

Sincerely,

A handwritten signature in black ink that reads "Rich Fitzgerald". The signature is written in a cursive, flowing style.

Rich Fitzgerald
Allegheny County Executive


PennState

 (814) 865-6574
 FAX: (814) 863-8685

 David J. Gray
 Senior Vice President for Finance
 and Business / Treasurer

 The Pennsylvania State University
 208 Old Main
 University Park, PA 16802-1503

December 14, 2015

 The Honorable Pat Toomey
 U.S. Senate
 238 Russell Senate Office Building
 Washington, DC 20510

Dear Senator Toomey:

On behalf of Penn State University, I write to thank you for your leadership in sponsoring S.1802, the Consumer Financial Choice and Capital Markets Protection Act of 2015, which has been referred to the Senate Banking, House, and Urban Affairs Committee. Penn State's 24 campuses, 17,000 faculty and staff, and 100,000 students fulfill the University's land-grant mission each day in world-class facilities financed primarily with tax-exempt bonds through money market funds (MMFs). Approval of S.1802 will enable the University to provide modern classrooms and state-of-the-art research facilities that employ and educate some of the brightest minds in the Commonwealth.

Penn State uses tax-exempt bonds to fund capital expenditures such as new construction, facilities upgrades, and property and equipment purchases. We are concerned that with the Security and Exchange Commission's (SEC) new rule, effective October 2016, prime money market funds may no longer purchase such debt obligations. The current SEC rule will increase project costs and could delay the implementation of future capital plans at campuses throughout Pennsylvania.

Additionally, Penn State utilizes MMFs for safe, liquid, and affordable cash management. These features safeguard the Universities financial assets, as well as facilitate access to operating cash and the ability to meet payroll and other payment obligations. Importantly, as a state-related university complying with policies and limitations on our investment options, MMFs provide a stable and low-risk option. With the SEC's new floating net asset value requirement on MMFs, Penn State will experience adverse effects from debt issuers and investors, and substantial costs to refinance debt.

We are grateful for your leadership on this issue and commend you for sponsoring S.1802.

Sincerely,

 David J. Gray
 Senior Vice President for Finance & Business/Treasurer



CITY OF PITTSBURGH

"America's Most Livable City"

Office of Mayor William Peduto

May 4, 2016

Honorable Robert P. Casey, Jr., U.S. Senator
Grant Building
310 Grant Street, Suite 2415
Pittsburgh, PA 15219

Dear Senator Casey:

I am writing to request your support for S. 1802, the Consumer Financial Choice and Capital Markets Protection Act of 2015. This bipartisan legislation will help Pittsburgh and municipal entities across the country to maintain access to affordable capital for public infrastructure investment. Identical legislation, H.R. 4216, has been introduced in the House of Representatives and is cosponsored by Congressman Mike Doyle, who represents the Pittsburgh area.

Money market funds (MMFs) hold nearly two-thirds of the short-term debt that finances state and local governments and other municipal entities, including \$6.7 billion of municipal debt issued by Pennsylvania entities. Short-term borrowing is the lowest cost form of funding, particularly for non-government conduit issuers that support hospitals, educational institutions, affordable housing, ports and transportation infrastructure.

Pursuant to the Securities and Exchange Commission's ("SEC") amendments to Rule 2a-7 adopted July 2014, effective October 14, 2016, certain categories of money market mutual funds can no longer be offered at a stable \$1 per share. Instead, the SEC rule requires that they offer and redeem shares on a floating net asset value basis. Many investors face legal constraints or investment policies that prohibit them from investing in cash pools that fluctuate in value. Therefore, these funds will be far less attractive to investors, limiting their ability to purchase municipal securities.

As money market mutual funds shut down, which already is happening due to the SEC rule change, municipalities will have to use other, potentially more expensive borrowing sources. Because of this, various projects funded by bond issuances will become more expensive for government entities, including Pittsburgh, and the size and scope of projects will be negatively impacted. If costs increase for tax-exempt debt issuers, it will directly lead to projects being reduced and delayed, which will result in fewer jobs.

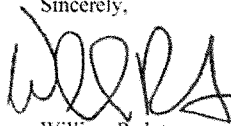
512 CITY-COUNTY BUILDING 414 GRANT STREET PITTSBURGH, PENNSYLVANIA 15219
Phone: 412-255-2626 ☎ Fax: 412-255-8602



S. 1802 offers a reasonable compromise. It will restore the fixed \$1-per-share value for money-market funds, while maintaining the other regulations the SEC has adopted. I hope you will cosponsor this legislation so that state and local governments can have investment and financing options beyond those offered by banks.

Thank you in advance for your consideration of this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Peduto', with a stylized flourish at the end.

William Peduto
Mayor of Pittsburgh



JOHN K. WEINSTEIN
TREASURER

Office of the Treasurer
County of Allegheny
Courthouse

436 GRANT STREET • PITTSBURGH, PA 15219-2497
PHONE (412) 350-4120 • FAX (412) 350-5649
www.alleghenycounty.us/treasurer

November 23, 2015

Honorable Mike Doyle
U.S. Congressman
14th District of Pennsylvania
2637 East Carson Street
Pittsburgh, PA 15203

Dear Congressman Doyle:

I am writing you regarding the Consumer Financial Choice and Capital Markets Protection Act of 2015. This Act has been introduced in the United States Senate as Senate Bill 1802. This Act will have a vital impact on investment funds and Allegheny County, and I ask that you please support the bill when it comes to the House.

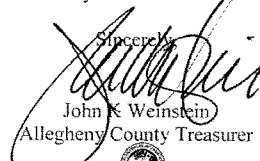

By way of background, pursuant to the Securities and Exchange Commission's Rule Amendments, in October of next year, certain categories of money market mutual funds will no longer be permitted to offer a stable \$1 per share value. The financial entities running the money market mutual funds will cease to operate these funds if they cannot maintain a stable net asset value because of the prohibitive cost for administration under the new SEC rules.

This would have a significant impact in Allegheny County. Money market mutual funds buy approximately 70% of the tax-exempt bonds issued by cities, counties, hospitals, colleges and universities. If money market mutual funds are no longer buying these tax-exempt bonds, the costs of the issuances increase with increased interest rates, and there will be fewer buyers in the market.

Because of this, various projects funded by bond issuances will become more expensive for government entities, including Allegheny County. As a result, the size and scope of projects will be negatively impacted. If costs increase for tax-exempt debt issuers, it will directly lead to projects being reduced and delayed, which will result in fewer jobs.

The Consumer Financial Choice and Capital Markets Protection Act of 2015 will preserve money market funds for all investors while ensuring continuing safeguards and the SEC's careful regulation. This Act enables institutions to continue to implement the management tools they have historically relied on.

I ask that you support this initiative when it is introduced in the United States House of Representatives. Thank you in advance for your consideration of this matter.

Sincerely,

John K. Weinstein
Allegheny County Treasurer


The New York Times | <http://nyti.ms/2bwkhYp>

The Opinion Pages | EDITORIAL

The Fake \$400 Million Iran 'Ransom' Story

By THE EDITORIAL BOARD AUG. 23, 2016

The first thing to know about the latest controversy over the Iran nuclear deal is that the Obama administration did not pay \$400 million in “ransom” to secure the release of three American detainees. Yet that’s the story critics are peddling in another attempt to discredit an agreement that has done something remarkable — halted a program that had put Iran within striking distance of producing a nuclear weapon.

The truth is that the administration withheld the payment to ensure Iran didn’t renege on its promise to free three detainees — a Washington Post journalist, a Marine veteran and a Christian pastor. That’s pragmatic diplomacy not capitulation.

The controversy erupted when The Wall Street Journal reported that the United States delivered \$400 million in cash to Iranian officials after Tehran released the American detainees. It has provided an irresistible opportunity for Iran-bashing and Obama-bashing.

What really happened was this: President Obama announced the \$400 million payment along with the release of the Americans in January, the day that the nuclear deal was implemented. But the money was part of a separate negotiation over funds the United States has owed Iran since its 1979 Islamic Revolution.

At that time, Washington froze Iranian assets in the United States, including money paid by Tehran for military hardware that the United States never delivered after its ally there, the shah, was overthrown. In 1981, the two countries agreed that a tribunal at The Hague would adjudicate the legal claims.

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The United States and Iran have wrestled with this issue for decades, but efforts to reach a settlement intensified once the two sides began work on the nuclear deal. Tribunal decisions are binding, and the administration concluded it would lose at The Hague; in addition to \$400 million, Iran was seeking billions of dollars in accumulated interest.

The United States was not the only country facing a legal defeat with Iran. Earlier this month, Switzerland's highest court ordered Israel to pay Iran around \$1.1 billion plus interest in a dispute over an oil pipeline company that was set up in the 1960s.

The \$400 million plus interest, totaling \$1.7 billion, that the United States agreed to pay was far less than what Iran was demanding. While the asset negotiations were separate from the negotiations over the nuclear program and the release of the detainees, all three issues came together in a carefully choreographed

push that many hoped would set the stage for more constructive relations between the two nations.

Yet as the State Department spokesman John Kirby acknowledged on Thursday, when the Americans became concerned that Iran might delay freeing the detainees, who should never have been held in the first place, United States officials withheld the money temporarily to maintain "maximum leverage." But it was Iran's money, and at some point, either through negotiation or arbitration, Iran was going to get it back.

Where the administration went wrong was in not being more transparent sooner about how the detainees' release unfolded. If the administration had handed over the funds and not brought the detainees home, what would the critics be saying now?

There are many reasons to fault Iran, including for its role in the Syrian President Bashar al-Assad's brutal civil war; aid to Hezbollah; hatred of Israel; and abysmal human rights record. But history is replete with instances of American presidents advancing national interests by working with governments they did not necessarily trust. This is one of them.

Follow The New York Times Opinion section on Facebook and Twitter (@NYTOpinion), and sign up for the Opinion Today newsletter.

A version of this editorial appears in print on August 23, 2016, on page A22 of the New York edition with the headline: The Fake \$400 Million 'Ransom' Story.

